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Figures

The following conventions are used in this report:

. . .   to indicate that data are not available or not applicable;

—   to indicate that the figure is zero or less than half the final digit shown;

–   between years or months (for example, 2005–06 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/   between years or months (for example, 2005/06) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion.

"Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

Minor discrepancies between constituent figures and totals are due to rounding.

<div align="center">* * *</div>

As used in this report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

PREFACE

As 2015 draws closer, implementing policies to meet the Millennium Development Goals (MDGs) in sub-Saharan Africa (SSA) is now more urgent than ever. While real GDP growth there averaged over 5 percent during 2004–05, it still falls short of the 7 percent needed if poverty is to be halved by 2015. The region is also not on track to meet any of the non-income MDGs. The challenge for Africa is how to make effective use of the substantial increase in financial assistance the international community promised in 2005. This report presents the most recent economic developments and then discusses how to deal with scaled-up aid. It stresses one of the major challenges to achieving higher growth: how to build a well-functioning financial sector. Finally, it discusses fiscal decentralization, which in many countries is key to ensuring effective spending to reduce poverty.

Recent Developments and Short-Term Prospects

In 2005, despite increasing oil prices, growth in SSA remained strong at over 5 percent. The absence of an adverse output response to higher oil prices in the oil-importing countries is explained in part by rising prices for non-oil commodity exports and in part by the increasing ability of those countries to weather exogenous shocks by adopting sound macroeconomic policies. After a steady decline to single digits in 2004, inflation edged up to 10.8 percent in 2005, reflecting in part the rise in oil prices. In *oil-exporting countries* the real exchange rate appreciated by 10 percent, external current account surpluses increased substantially, and reserves accumulated despite expanding domestic absorption. In contrast, in *oil-importing countries*, the current account deficit widened, with some countries drawing down foreign reserves to finance imports.

In 2006, growth is expected to be sustained at about 5.3 percent, with inflation broadly unchanged—though there are political and economic risks. For oil-importing countries, fiscal and current account balances may come under pressure from higher-than-expected oil prices or lower-than-expected prices for other commodities. Political uncertainties and fragile security in several parts of SSA also threaten growth prospects, and the spread of avian flu to Africa is itself a major threat. Millions of inhabitants of Eastern and Southern Africa are in urgent need of food and humanitarian assistance. On the upside, increased aid and the Multilateral Debt Relief Initiative (MDRI) should help SSA countries allocate more resources to achieving the MDGs and reducing poverty.

Scaling Up Aid: Macroeconomic Challenges

Significant increases in aid offer major opportunities but may also pose macroeconomic challenges. Aid does not automatically increase growth; its impact on growth depends on the forms aid takes and how it is used. There may be a trade-off in directing aid between achieving growth (e.g., spending on infrastructure) and relieving poverty (e.g., spending earmarked for social sectors). Sound public expenditure management (PEM) systems, public auditing bodies, and good governance are likely to increase the benefits of aid, allowing more funds to be channeled to productive uses and reassuring donors that their money is well spent.

When aid flows increase, a country has to choose how much to absorb through an increase in the external current account deficit and how much to spend through the government budget. Typically, it will both absorb and spend aid, rais-

ing the possibility of an appreciation of the real exchange rate, which could hurt the nontraded-goods sector. The empirical literature does not tell us if such Dutch disease effects necessarily occur; for Africa the evidence is mixed. Higher spending on infrastructure bottlenecks, which may improve productivity faster in the nontradables sector, can help mitigate Dutch disease symptoms. Liberalizing trade will increase the import content of additional public and private spending and hence reduce the pressure for a real exchange rate appreciation.

Governments receiving more aid must prepare for the possibility that donors will not sustain the aid. They need to have an exit strategy ready for a time when aid again falls. At the same time, they must maintain efforts to collect revenue by strengthening their tax systems. Governments may choose to smooth the impact of aid volatility by projecting accumulation or deaccumulation of reserves, recognizing that there will necessarily be effects on monetary management.

The Financial Sector

Building up the financial sector is vitally important for poverty reduction and growth. SSA has the world's least developed financial sectors. Institutional coverage is limited, and even banking sectors—which dominate among financial institutions—are small. Although regulation is generally consistent with international norms and the financial systems are sound, a history of forbearance has left a number of weak banks, many of them state-owned. Also, while banks are on average profitable, their assets are more concentrated, and return on assets is lower than elsewhere in the world.

Financial sector weaknesses limit access to saving and credit and complicate the pursuit of macroeconomic policies. Constrained by limited physical access to bank branches, high bank charges, and administered interest rates, most households cannot afford to accumulate savings in a financial institution. Access to loans is constrained by, among other factors, weak account-

ing practices and lack of collateral. High overhead costs, weak legal systems, and crowding out by government further depress lending. Shallow markets and excess liquidity in the banking system render monetary and exchange rate policies more costly and less efficient.

Efforts to address these challenges have been limited or counterproductive. Though the microfinance sector—promoted by many governments and nongovernmental organizations to increase access of the poor to financial services—has been growing fast, it remains small compared with the banking sector and is often unprofitable. Other efforts, such as using state and development banks to promote more financing for productive sectors, have in the past contributed to banking crises in the region. Renewed efforts in this direction may create distortions and are likely to be costly in the longer run.

Comprehensive financial sector reform needs to be a priority for SSA. It is especially important to eliminate distortions arising from interest rate controls, forbearance, and the use of regulatory monetary instruments. Other useful steps would be to increase the size of markets (e.g., in the context of the existing monetary unions); promote a prudential framework consistent with economic structures; use alternative financial instruments to overcome bottlenecks; avoid costs and distortions from state-owned institutions; and ensure evenhanded application of prudential rules.

Fiscal Decentralization

Fiscal decentralization is becoming more common in SSA. In many countries, subnational spending has reached at least 20 percent of total spending and over 70 percent of poverty-reducing spending. As fiscal responsibilities have devolved, the challenge has been how to assign responsibilities for revenues and expenditures, increase the accountability of subnational governments, and create incentives that optimize revenue and expenditure decisions.

The social and economic outcomes of decentralization have been mixed. While spending on

health and education has increased in more decentralized countries, service outcomes have been uneven because of weak accountability and capacity constraints outside the center. Despite recent increases in national revenues, heavy reliance on transfers from the center appears to have blunted incentives for subnational governments to raise their own revenues.

SSA countries should work to preserve macroeconomic stability while enhancing accountability and strengthening subnational incentives and capacity for service delivery. Subnational budget controls need to be strengthened; budget allocations need to be published and tracked along the service chain. Service delivery benchmarks and incentives in the transfer system could be used to hold subnational governments accountable. To preserve macroeconomic stability, the center must clearly state and enforce rules for subnational borrowing and strengthen fiscal coordination with subnational governments.

RECENT DEVELOPMENTS AND SHORT-TERM PROSPECTS

E conomic growth in sub-Saharan Africa continued to be strong in 2005 (5.3 percent), though it was slightly below the high level in 2004 (5.6 percent) (Figure 2.1 and Table 2.1).[1]

Developments in 2005

The increase in oil prices did not depress output growth (4.9 percent) in oil-importing countries, in part because of a concomitant increase in the prices of some commodity exports and the growing ability of those economies to withstand external shocks. Growth performance in a few countries was adversely affected by drought and locust infestation. Economic growth in oil-exporting countries slowed to 6.8 percent in 2005 from 8.3 percent a year earlier, owing primarily to constraints on expanding oil output in Chad and Equatorial Guinea. Adoption of sound macroeconomic policies and evidence of higher productivity growth in recent years suggest that the region's higher economic growth is not temporary but is rather a structural shift.[2]

Though average real per capita GDP growth in 2005 was 3.4 percent, it remains below the level necessary to achieve the income-poverty MDG. A rate of at least 5 percent (real GDP growth of 7 percent) is required if poverty is to

Figure 2.1. Real GDP Growth, 2000–06
(Percent)
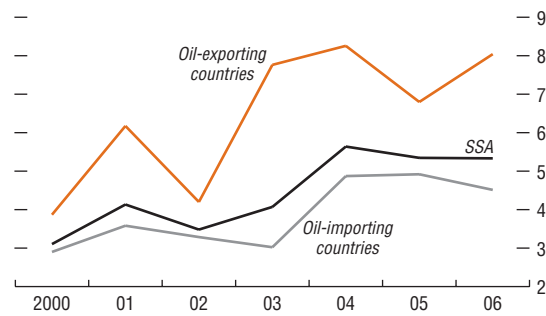
Source: IMF, African Department database.

[1]The principal authors of this chapter are Sanjeev Gupta, Paula De Masi, Jan Mikkelsen, and Jakob Christensen. Sub-Saharan Africa (SSA) is defined as the countries covered by the IMF's African Department and excludes Djibouti, Mauritania, and Sudan, which are included in the SSA aggregation in the IMF's *World Economic Outlook (WEO). WEO* reports a real GDP growth rate of 5.5 percent in SSA for 2005, higher than the 5.3 percent reported here. The Statistical Appendix provides information on 42 countries in SSA; Eritrea and Liberia are excluded because of data limitations.

[2]See IMF (2005g) for a detailed discussion of factors sustaining growth in SSA in recent years.

Table 2.1. Sub-Saharan Africa: Selected Indicators, 2002–06[1]

	2002	2003	2004	Estimate 2005	Current Projections 2006
	(Annual growth, in percent)				
Real GDP	3.5	4.1	5.6	5.3	5.3
Of which: Oil exporters[2]	4.2	7.8	8.3	6.8	8.0
Oil importers	3.3	3.0	4.9	4.9	4.5
Real non-oil GDP	4.0	3.5	5.2	5.2	5.3
Consumer prices (average)[3]	12.5	13.8	9.8	10.8	11.0
Of which: Oil exporters	18.7	16.9	12.5	13.3	7.7
Per capita GDP	1.4	2.0	3.7	3.4	3.4
	(Percent of GDP unless otherwise noted)				
Exports of goods and services	32.4	33.8	36.0	38.8	41.2
Imports of goods and services	32.8	33.5	34.7	36.2	37.3
Gross domestic saving	15.4	18.1	20.4	20.8	22.1
Gross domestic investment	16.3	18.4	19.0	18.9	19.3
Fiscal balance (including grants)	−2.7	−2.2	−0.3	1.2	2.1
Of which: Grants	1.1	1.1	1.1	1.1	1.0
Current account (including grants)	−3.3	−2.6	−1.8	−0.5	0.7
Of which: Oil exporters	−8.2	−3.6	2.4	9.3	12.3
Terms of trade (percent change)	0.5	1.1	2.8	6.4	4.1
Of which: Oil exporters	5.2	1.5	9.4	27.3	8.1
Oil importers	−1.1	0.9	0.2	−3.7	0.9
Reserves (in months of imports)[4]	4.4	4.0	5.0	5.5	6.6
Memorandum items:					
Advanced country import growth (in percent)	2.5	4.1	8.9	5.8	6.2
Oil price (U.S. dollars per barrel)	25.0	28.9	37.8	53.4	61.3
Real GDP growth in other regions					
Developing Asia	7.0	8.4	8.8	8.6	8.2
Middle East	4.3	6.6	5.4	5.9	5.7
Commonwealth of Independent States	5.3	7.9	8.4	6.5	6.0

Sources: IMF, African Department database; and *World Economic Outlook* database.

[1]Arithmetic average of data for individual countries, weighted by GDP.

[2]Defined on the basis of net oil exports; includes Angola, Cameroon, Chad, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, and Nigeria.

[3]Excluding Zimbabwe, annual CPI inflation was 6.1 and 8.2 percent in 2004 and 2005, and is projected at 6.5 percent in 2006.

[4]Excluding South Africa.

be halved by 2015 (World Bank and IMF, 2005). The region is not on track to achieve any one of the nonincome MDGs. Chapter III discusses the effects of scaling up aid flows to SSA, and Chapter IV analyzes how financial development can promote growth and reduce poverty.

Recent gains in reducing inflation were largely sustained in 2005 (Figure 2.2). After a steady decline to single digits in 2004, inflation for the region as a whole edged up to 10.8 percent in 2005.[3] The rise in both oil-exporting and oil-importing countries reflected in part the pass-through of higher oil prices (Box 2.1 [on page 11] and Figure 2.3).[4]

The global economic expansion in 2005 continued to stimulate growth in the region. Import demand from advanced economies increased by close to 6 percent. However, sustained increases in oil prices worsened the terms of trade for oil importers. The terms of trade deteriorated further for those exporting cotton and cocoa, but the hike in coffee and gold prices mitigated the

[3]Excluding Zimbabwe—where the average inflation rate, while declining, remained high—average inflation for the region increased from 6 percent in 2004 to about 8 percent in 2005.

[4]Average spot prices for oil rose by $16 to $54 a barrel in 2005, reflecting strong global demand, political tensions, production disruptions, and constrained capacity. Oil prices are expected to average about $60 a barrel in 2006.

impact in Burundi, Ghana, Guinea, South Africa, and Uganda.

Real exchange rates appreciated further, mainly because currencies strengthened in oil-exporting countries (Figure 2.4), where higher oil revenues led to an average real exchange rate appreciation of about 10 percent. While experience varied in the oil-importing countries, on average the real exchange rate remained relatively stable during 2005, particularly in the CFA franc countries.

The region was buffeted by another year of drought, locusts, and poor crop harvests that in some areas led to severe food shortages and famine. The situation was exacerbated by the effects of the HIV/AIDS pandemic, civil conflicts, and political tensions (notably in Zimbabwe). In the worst-affected countries, food stocks were depleted rapidly, and higher food prices substantially reduced household purchasing power. Among the countries that faced food emergencies were Burundi, Chad, Ethiopia, Kenya, Malawi, Mozambique, Niger, Zambia, and Zimbabwe. The situation has recently improved in Niger, though more vulnerable households continued to feel the aftershock of the poor 2004 harvest.

The number of people affected by HIV/AIDS increased from 24.9 million in 2003 to 25.8 million in 2005 (UNAIDS, 2005). The number of deaths in 2005 is estimated at 2.4 million. While in Kenya, Uganda, and Zimbabwe HIV prevalence rates appear to be declining, in South Africa and Swaziland HIV prevalence among pregnant women reached a new high. HIV awareness in SSA remains limited, and access to treatment is uneven. For example, in Ethiopia, Ghana, Lesotho, Mozambique, Nigeria, Tanzania, and Zimbabwe, fewer than 10 percent of the people requiring antiretroviral drugs in 2005 received them.

Malaria continues to be a major burden on the region. There are about 12 million malaria episodes annually in SSA (WHO and UNICEF, 2005), resulting in up to a million deaths—about 90 percent of all malaria deaths in the world (WHO, 2004). It is estimated that some 20

Figure 2.2. Inflation, 2000–06
(Percent)
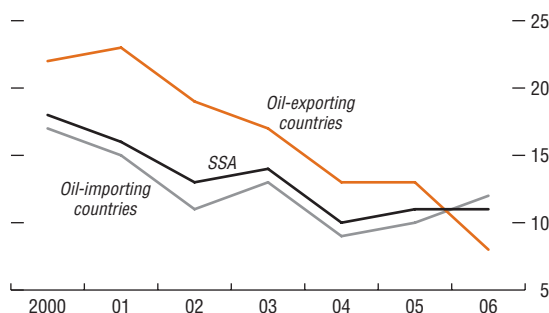
Source: IMF, African Department database.

Figure 2.3. Commodity Prices, 2000–06
(Annual percent change; in U.S. dollars)
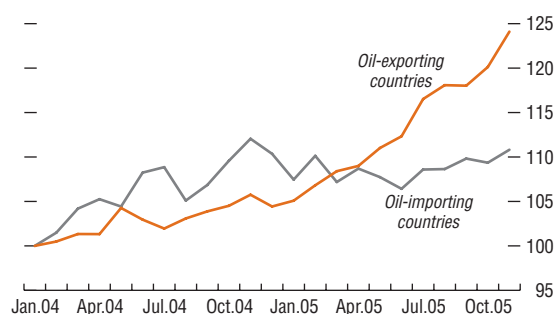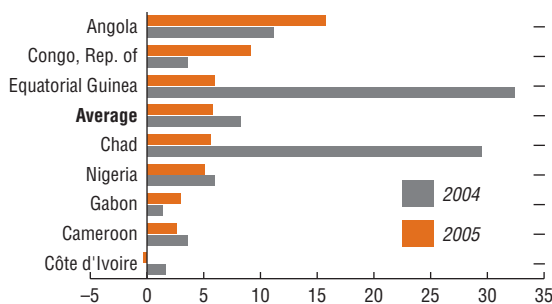
Source: IMF, African Department database.

percent of under-five child mortality is attributable to malaria. Since a high number of malaria-related deaths occur outside the formal health system, moreover, it is likely that the magnitude of the epidemic is significantly underestimated.

Oil Exporters

Growth in four of the eight oil-exporting countries decelerated in 2005 (Figure 2.5). The slowing was most dramatic in Equatorial Guinea and Chad, where real GDP growth dropped from about 30 percent in 2004 to about 6 percent. In Chad, the decline was partly related to the political instability following the army rebellion and to increased tensions on the Chad-Sudan border. In Côte d'Ivoire, stagnation reflected the lack of progress toward peace. In contrast, in Angola, new oil fields and continued postconflict recovery boosted real GDP growth to 15.7 percent. In the Republic of Congo, a pickup in oil production and robust non-oil-sector growth appear to have led to an increase in real GDP growth, to above 9 percent. In Nigeria, strong growth of the non-oil sector led to a 1 percentage point increase in real GDP growth, to about 7 percent.

Income of oil exporters is vulnerable to the vagaries of international oil prices (Figure 2.6). Although in several countries growth in the non-oil sector has kept pace with that of the oil sector, oil sector contribution to growth during 2000–05 was most notable in Equatorial Guinea and Chad (Figure 2.7). A priority for sustaining growth is to diversify the economies of oil-exporting countries to reduce their dependence on oil. In Angola and Nigeria, non-oil output is making a stronger contribution to real GDP growth even though the oil sector still accounts for more than 50 percent of total output (Figure 2.7). In Gabon, buoyant manganese production, a recovery in the timber sector, and rising construction activity contributed to the increase in economic activity.

In 2005, inflation in oil-exporting countries edged up by about 1 percentage point, to 13.3 percent. This mainly reflected higher inflation in Nigeria and a reversal of the recent deflation

Figure 2.4. Real Effective Exchange Rate, 2004–05
(Index, January 2004 = 100)

Source: IMF, Information Notice System.

Figure 2.5. Oil-Exporting Sub-Saharan African Countries: Real GDP Growth, 2004–05
(Percent)

Source: IMF, African Department database.

in Chad. In Nigeria, inflation averaged about 18 percent in 2005, owing to a surge in food prices in the first half of the year. In Chad, food prices rose significantly by mid-2005 because food production was relatively low. Further progress in reducing inflation was observed in Angola—where inflation fell by half, to 23 percent, reflecting lower growth of monetary aggregates—and, more modestly, in the Republic of Congo.

The fiscal situation in the oil-exporting countries has improved steadily since 2002. On average, the fiscal balance moved from a deficit of about 3 percent of GDP to a surplus of 7.6 percent in 2005. Fiscal surpluses above 7 percent are estimated for the Republic of Congo, Equatorial Guinea, Gabon, and Nigeria. Continued high oil prices boosted revenues, but on average the non-oil deficit among oil producers was broadly unchanged.

In response to what may be permanently higher oil prices, some oil-exporting countries (e.g., Angola and Nigeria) have combined expansion in domestic absorption with accumulation of foreign exchange reserves. The extent to which spending in these countries expanded varied according to their capacity to absorb additional resources. They are making efforts to formulate medium-term expenditure frameworks and to strengthen their PEM systems. However, if they are to achieve the MDGs, they must also strengthen the ability of subnational governments to spend efficiently (see Chapter V).

Progress has been made in implementing the Extractive Industries Transparency Initiative (EITI).[5] Of the eight oil-exporting countries in SSA, Gabon, the Republic of Congo, and Nigeria are currently implementing EITI.[6] In 2005,

[5]The EITI supports improved governance in resource-rich countries through full publication and verification of company payments and government revenues from oil, gas, and mining.

[6]In December 2005, Gabon published its first EITI report on oil revenues for 2004, prepared by an international accounting firm. Nigeria published a preliminary audit report of the 2003 and 2004 oil and gas accounts in January 2006. In the Republic of Congo, there has been progress with dissemination of more information on the oil operations in the country.

Figure 2.6. Oil-Exporting Sub-Saharan African Countries: Oil GDP, 2005
(Percent of total GDP)
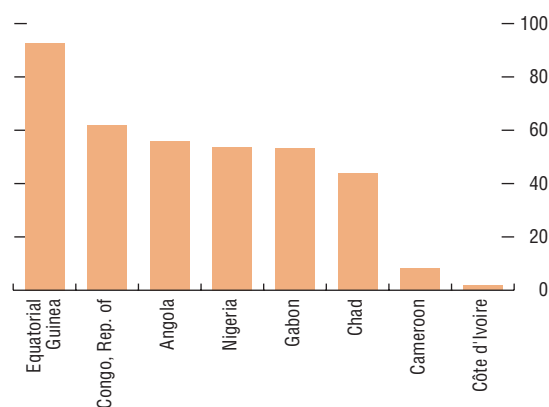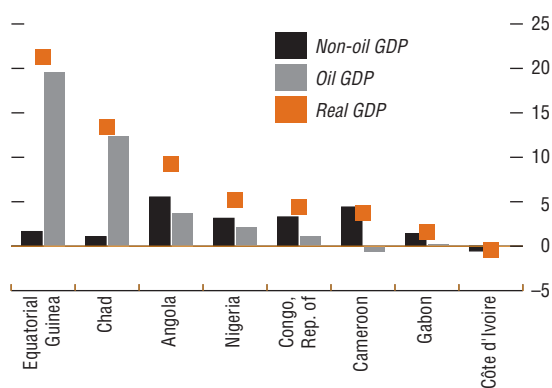
Source: IMF, African Department database.

Equatorial Guinea endorsed it, as Angola, Cameroon, Chad, and Gabon had already done, and is now considering how and when to implement all its elements. Though Cameroon is expected to start implementation early in 2006, Angola and Chad have made little progress. Côte d'Ivoire is the only oil producer not yet committed to the EITI.

External current account balances, excluding grants, have been improving steadily, from an average deficit of about 8 percent of GDP in 2002 to a surplus of about 9 percent in 2005.[7] Except for Côte d'Ivoire, all oil-exporting countries saw their external position strengthen in 2005. Current account improvements were largely driven by further strengthening in the trade balance; the continued rise in export earnings more than offset a modest increase in imports.

Oil Importers

Oil-importing countries on average maintained their growth in 2005 at 4.9 percent; nearly half had a growth rate of 5 percent or more (Figure 2.8). These countries adopted generally sound macroeconomic policies that supported growth despite a variety of economic and other shocks, such as extreme weather conditions. Economic activity expanded by more than 7 percent in Burkina Faso, Ethiopia, Mozambique, and Sierra Leone. Growth in Sierra Leone was broadly based, covering agriculture, mining, manufacturing, and services. By contrast, Ethiopia's strong growth was attributable to a rebound in agriculture after two years of drought. Driven by domestic demand, and increasingly supported by exports, growth in South Africa reached 4.9 percent.

Growth was anemic in a number of other countries. In eight (Central African Republic, Comoros, Guinea-Bissau, Lesotho, Malawi, Seychelles, Swaziland, and Zimbabwe), growth

Figure 2.7. Oil-Exporting Sub-Saharan African Countries: Contribution to Growth, 2000–05
(Average annual growth, in percent)

Source: IMF, African Department database.

[7]Official grants for the oil-producing countries amount to just 0.3 percent of GDP in 2005, ranging from nothing in Equatorial Guinea, Gabon, and Nigeria to 2.2 percent of GDP in Chad.

Box 2.1. Response to Higher Oil Prices in Sub-Saharan African Countries, 2003–05

Most SSA countries regulate domestic petro-leum prices. Though prices are fully liberalized in 6 countries, 31 (including the majority of oil-exporting countries) adjust prices on an ad hoc basis or use a formula to adjust prices regularly, usually monthly. In response to rising world prices, some countries, such as Côte d'Ivoire and Ethiopia, have suspended use of a formula in favor of less frequent ad hoc adjustments.

Since 2003, the majority of SSA countries have allowed a full pass-through of higher oil prices to domestic prices,[1] though the pass-through was less pronounced in oil-exporting countries (Figure 1). Price increases in many countries, including Cameroon, Comoros, Côte d'Ivoire, Ghana, Guinea, Mauritius, Niger, and Nigeria, were preceded by media campaigns on the need for price adjustments. The average pass-through among the oil importers in SSA is greater than in developing Asia but less than in the developing Western Hemisphere.

Many countries limit increases in prices for kerosene because of its importance to poor households. The pass-through for kerosene has been less than for diesel and gasoline, and the tax on it is lower than for other petroleum prod-ucts, mainly because of exemptions from value-

[1]Full pass-through occurs when the ratio of the change in the domestic price of oil to the change in the import price equals 1 when both changes are denoted in a common currency.

Figure 2. Average Pass-Through and Taxation of Petroleum Products
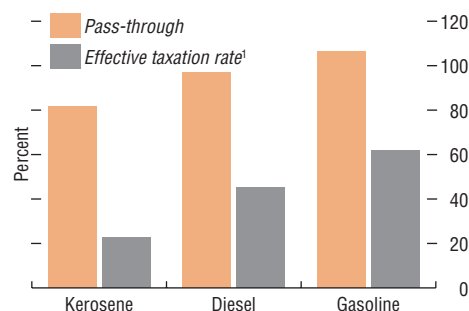
Source: IMF, country desk data.
[1]Average effective taxation is defined as the average ratio of receipts to before-tax price per liter.

added tax and lower excises and import duties on kerosene (Figure 2). Despite subsidies, since 2003 the retail price of kerosene has increased more than that of gasoline and diesel.

Several countries that did not allow a full pass-through have higher price subsidies for petro-leum products. Overall, for the 14 SSA countries for which data are available, petroleum subsidies increased to 1 percent of GDP in 2005 from 0.75 percent in 2003. While the subsidies in some countries are significant, only Angola, Ethiopia, Ghana, Guinea, and Mali have ana-lyzed the poverty and social impact of their petroleum subsidies. The studies have typically found that benefits from a generalized oil subsidy (implicit or explicit) appear to accrue mostly to higher-income groups.

Petroleum taxes are an important source of revenue for SSA countries. On average, they collect almost 2 percent of GDP in taxes on con-sumption of petroleum products. Specific taxes are more common in the region than ad val-orem taxes. Revenues from petroleum consump-tion are higher in countries like Ghana, Kenya, and Tanzania where petroleum prices are liber-alized than in those where prices are regulated. Most countries have not changed their tax rates in response to recent price increases. Oil-export-ing countries also receive significant revenues from the production of petroleum.

Figure 1. Pass-Through of Higher Oil Prices[1]

[1]Pass-through of higher international oil prices to domestic prices.

Box 2.2. Impact of Higher Oil Prices: Ghana's Experience

Addressing higher petroleum prices presents a difficult trade-off for an oil-importing country.[1] Higher prices can adversely affect poverty, but failure to pass on price increases domestically comes at a high cost. In Ghana, petroleum subsidies in 2004 amounted to 2.2 percent of GDP, almost one-third of total outlays on education and health in the same year.

Because the government was concerned that raising petroleum prices would adversely affect the poor but lacked information on which groups were likely to be affected and how to mitigate the effect of higher prices, it initiated a study of the poverty and social impacts of higher prices for petroleum products. According to this study, the impact would mainly be felt by the rural poor in higher kerosene prices and by low-paid urban workers in more expensive mass transportation. Smaller farmers and fishermen were vulnerable to increases in the price of diesel and gas-oil. Existing subsidies were more favorable to products used by the middle classes, such as liquid petroleum gas, and were not reaching the poor.

Stakeholders from across government, the private sector, and civil society debated policy options for reforming petroleum subsidies. This process made it clear that targeting smaller groups was difficult in the absence of institutionalized safety nets and that maintaining subsidies for kerosene in the short term was expensive, given the risks of smuggling and substitution of other fuels. However, three *indirect* means were identified to offset the impact of subsidy removal and improve the efficiency of targeting:

- Expand rural electrification to mitigate the pressure to substitute fuel wood for kerosene.
- Improve mass transportation for vulnerable urban groups.
- Remove fees for primary education in state-funded schools to compensate for the real income losses of poor families that resulted from higher petroleum prices.

This reform strategy allowed the government to defend petroleum price increases to the public. Savings from the rationalization of petroleum subsidies were used to finance programs that benefited the poor.

[1]See IMF (2005g, Box 2.3).

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was less than 2.5 percent in 2005. In Malawi, growth was depressed by drought and in Swaziland and Lesotho by a loss in competitiveness from the erosion of textile preferences. Though conflict there has ceased, a rebound in economic activity is yet to materialize in the Central African Republic and Guinea-Bissau. Economic deterioration accelerated in Zimbabwe, where real GDP fell by about 6.5 percent and difficult political and social conditions caused severe shortages of food, fuel, and agricultural inputs. In Seychelles, GDP contracted further owing to a crisis arising from the country's extremely fragile external position.

Inflation also increased in oil-importing countries in 2005, in part because of higher oil prices. Average inflation in these countries increased by 1 percentage point in 2005, to 10 percent.[8] High inflation continued in Zimbabwe, driven by large quasifiscal deficits, and prices rose in Burundi because of rapid monetary expansion. In the Democratic Republic of the Congo, monetary financing of the fiscal deficit caused a price surge. In Guinea, rapid currency depreciation and adjustments in the domestic petroleum price caused inflation to rise by 14 percentage points. Before adjusting domestic petroleum prices to rising international prices, some governments assessed the social impact of price increases on

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[8]Excluding Zimbabwe, average inflation increased from 4.2 percent in 2004 to 6.7 percent in 2005.

different income groups and consulted with stake-holders within the country (Box 2.2).

Fiscal deficits widened in about half the oil-importing countries,[9] often because outlays on MDGs and poverty reduction programs were scaled up, as in Ethiopia, Kenya, and Mozambique. These were financed in part by aid inflows. It is a challenge for countries to effectively absorb rises in aid inflows without destabilizing their macroeconomic position—a subject discussed in detail in Chapter III. Because efforts to mobilize domestic revenues continued, the fiscal position improved in Botswana, Burundi, Ghana, Sierra Leone, South Africa, and Uganda. In South Africa, higher revenues made it possible to lower the deficit, even with increased spending on social services and infrastructure. In the aggregate, higher oil prices were not accompanied by a tighter fiscal and monetary stance in countries with fixed or pegged exchange rates, and did not cause significant real effective exchange rate depreciation in countries with flexible rates.

The balance of payments impact of higher oil prices was mitigated partly by higher commodity export prices and partly by a reduction in reserves. The average external current account deficit, including grants, deteriorated further in 2005, reaching 4.8 percent of GDP. The deterioration was widespread; about two-thirds of SSA countries had a weaker current account position in 2005 than in 2004. The deterioration was significant in a number of countries, including Ethiopia, Ghana, Kenya, Lesotho, Seychelles, Sierra Leone, Mozambique, and São Tomé and Príncipe. While the average impact of higher oil bills on the current account is estimated at 1.4 percent of GDP in 2005, it varies significantly by country (Figure 2.9). In about half the oil-importing countries, deterioration in the external current account was significantly larger than

[9]The fiscal deficit for the oil-importing countries, excluding South Africa, increased in 2005 from 2.7 percent of GDP to 3.3 percent of GDP, including grants, and from 5.9 percent of GDP to 6.7 percent of GDP, excluding grants.

Figure 2.8. Oil-Importing Sub-Saharan African Countries: Real GDP Growth, 2005[1]
(Annual growth, in percent)
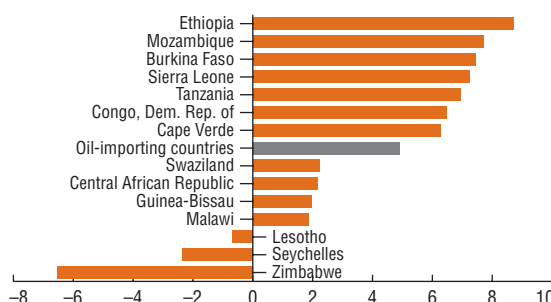
Source: IMF, African Department database.
[1]The figure shows only the top and bottom seven countries, and the total for all oil-importing countries.

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Figure 2.9. Oil-Importing Sub-Saharan African Countries: Impact of Higher Oil Prices on Current Account, 2005[1]
(Percent of GDP)
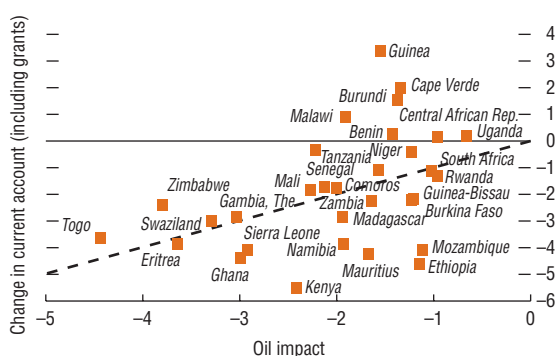
Source: IMF, African Department database.
[1]The oil impact is the price effect in the country's oil bill in percent of 2005 GDP; the change in the current account is also expressed in percent of 2005 GDP.

is explainable by higher oil prices, reflecting other developments. However, in Botswana, Burundi, South Africa, and Uganda, the impact of the higher oil bill was mitigated by rising prices of commodity exports or by fiscal retrenchment. In South Africa, strong capital inflows boosted reserves substantially; elsewhere, average reserve cover fell by about half a month, to 4.7 months of imports. While a loss in international reserves may be a reasonable short-run response to higher international oil prices, this would not be sustainable if oil prices remain at their current level or rise further. For countries with a flexible exchange rate system, a real depreciation of the exchange rate would eventually be required, and for countries with a fixed exchange rate, tighter fiscal and monetary policies would be the appropriate policy response.

Official Grants and Multilateral Debt Relief

The commitment donors made in 2005 to increase aid flows to SSA will take time to materialize. The inflow of grants in fact stabilized in 2004–05 at 3.2 percent of GDP (excluding Nigeria and South Africa; Figure 2.10).[10] However, inflow relative to GDP increased significantly in a few countries, notably Burundi, Rwanda, and Zambia. Rwanda and Zambia received new resources after reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

The average external debt burden continued to decline in 2005. It will decline further when the MDRI is fully implemented. The IMF delivered its share of debt relief in January 2006 (Appendix Table A1), and the World Bank and the African Development Fund are expected to complete theirs in the first half of 2006.

[10]Official grants represent only part of official development assistance (ODA) as defined by the OECD. ODA also comprises loans, with a grant element of at least 25 percent.

As part of the MDRI, the IMF gave 100 percent relief on debt owed to it by 19 poor countries, of which 13 are in SSA.[11] This relief will be phased in according to the absorptive capacity of the country.[12] The size of IMF relief varies greatly, from 0.9 percent of GDP in Ethiopia to 7.9 percent in Zambia (Figure 2.11). Ten other SSA countries could qualify for debt relief when they reach the HIPC Initiative completion point, hopefully within two years.[13]

Combined with the expected debt relief from the World Bank and the African Development Fund (AfDF), total relief from this initiative could be substantial. It should help these countries progress toward achieving the MDGs and reducing poverty. Better outcomes will depend on effective use of the additional resources. The PEM systems in most countries that will benefit from debt relief require substantial upgrading to allow effective tracking and use of the MDRI resources, though there has been some progress in strengthening PEM systems since the launch of the enhanced HIPC in 2000.

Outlook for 2006

The outlook for SSA is positive, with growth expected to remain at 5.3 percent in 2006, reflecting continued prudent macroeconomic policies in many countries and strong import demand by industrial countries. Higher growth in oil-exporting countries should more than offset a modest slowdown in oil-importing countries. Average inflation in SSA is projected to

Figure 2.10. Official Grants, 2004–05
(Percent of GDP)
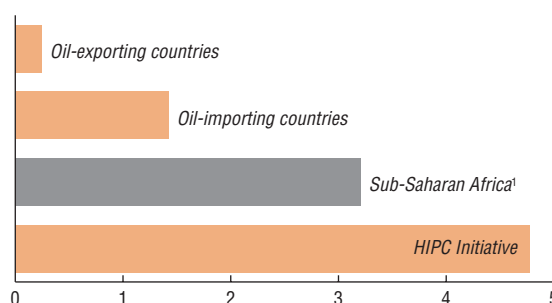
Source: IMF, African Department database.
[1]Excluding Nigeria and South Africa.

[11]Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The other six countries are Bolivia, Cambodia, Guyana, Honduras, Nicaragua, and Tajikistan.

[12]The *stock* relief is 100 percent debt relief on all outstanding debt incurred to the IMF before January 1, 2005. This effectively provides a *flow* relief in the coming years equaling the debt service that would have fallen due to the IMF on the debt.

[13]They are Burundi, Cameroon, Chad, the Democratic Republic of the Congo, The Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé and Príncipe, and Sierra Leone.

**Figure 2.11. Fund Stock Relief Under the
Multilateral Debt Relief Initiative**
(Percent of 2005 GDP)
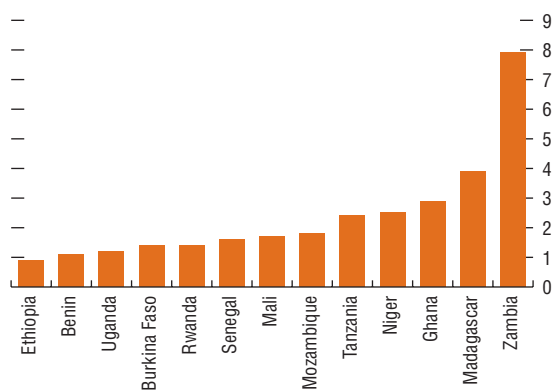
Source: IMF staff calculations.

remain broadly unchanged at about 11 percent
in 2006; if Zimbabwe (where inflation is ex-
pected to continue to be high) is excluded
from the calculation, average inflation in SSA
is expected to decline from 8.2 percent in
2005 to 6.5 percent in 2006—a drop of almost
2 percentage points.

Real GDP growth in oil-exporting countries
should strengthen significantly, to 8 percent in
2006. Increased petroleum production capacity is
coming on stream in Angola, Equatorial Guinea,
and the Republic of Congo. Except in Chad and
Côte d'Ivoire, it is expected that growth in oil
output will be complemented by sustained
growth in the non-oil sector, particularly in
Angola, where it is expected to expand by about
15 percent as a result of continued postconflict
recovery and rising agricultural output.

Growth is expected to decline to 4.5 percent
in the oil-importing countries. This is mostly
because growth in South Africa is expected to
moderate to 4.3 percent. In more than half of
the oil-importing countries, however, growth
prospects are stronger for 2006. It is projected
that real GDP growth will equal or exceed 7 per-
cent in Cape Verde, the Democratic Republic of
the Congo, Malawi, Mozambique, Sierra Leone,
and Tanzania. It is expected to remain weak, less
than 2 percent, in Seychelles, Swaziland, and
Zimbabwe.

Inflation is likely to decline moderately in sev-
eral countries. Only in Guinea and Zimbabwe is
inflation projected to be above 15 percent in
2006. In Zimbabwe, hyperinflationary conditions
are expected to continue, particularly in the first
half of the year. In countries that realize the
pass-through of higher oil prices in 2006, domes-
tic prices may show a small uptick, but average
inflation in oil-importing countries, except for
Zimbabwe, is projected to drop to about 6 per-
cent. In oil-exporting countries average inflation
should decline significantly to 7.7 percent,
reflecting stabilization efforts in Angola, Chad,
and Nigeria.

Fiscal and current account balances are
expected to evolve differently for oil exporters
and oil importers. The fiscal deficit, including

Box 2.3. Sub-Saharan Africa and the WTO Meeting in Hong Kong SAR

The sixth ministerial meeting of the WTO, held in Hong Kong SAR during December 13–18, 2005, produced some positive results for countries in SSA. Many countries will benefit from the decision to extend duty-free and quota-free market access to developed countries for exports from least-developed countries (LDCs), though the product coverage will be limited to 97 percent of goods, with exemption for some 300 "sensitive" products (such as sugar, rice, and low-end clothing) that are of interest to LDCs. Ministers also highlighted the importance of the Integrated Framework in reducing supply-side constraints to trade in LDCs. They further noted that "aid for trade" cannot be a substitute for the development benefits that would result from a successful conclusion of the Doha Round, but can be a valuable complement.

Some progress was made with cotton; the ministers promised to front-load the reduction of trade-distorting domestic subsidies, though no specific dates were set for action. Export subsidies for cotton are to be eliminated by 2006, and LDCs will have duty- and quota-free market access to the cotton markets in developed countries, though the impact is likely to be limited because current trade barriers are already low. Overall, these agreements should generate modest improvements in access to industrial country markets for African exporters. The U.S.

Congress recently approved the removal by August 2006 of most export subsidies for cotton.

Ministers agreed that agricultural export subsidies are to be eliminated by 2013, and a four-band approach to tariff cuts was adopted. They also agreed on some technical parameters to guide negotiations on domestic support in 2006. On development issues, the agreement emphasizes that LDCs will need to undertake only those commitments that are consistent with their capacity. Little progress was made in such other areas as nonagricultural market access, services liberalization, and trade rules.

Strong market-opening commitments by developing as well as developed countries will be vital for improving market access for African exports. Developing countries have become not only an important market for African products but also a source of imports, investment, and technology. Trade liberalization in other developing countries would therefore significantly boost African trade and investment. At the same time, African countries need to liberalize their own trade regimes rather than opting out of reciprocal commitments. Though the lack of such commitments is often portrayed as preserving "policy space" for development, it actually deprives many African countries of a unique opportunity to integrate trade reforms into their poverty reduction and growth strategies.

grants, is projected to worsen in more than half of the oil-importing countries, notably Cape Verde, Ethiopia, Guinea-Bissau, and Kenya. While the reserve cover for oil importers should on average remain unchanged, Burkina Faso, Comoros, Ethiopia, Guinea-Bissau, Rwanda, and Tanzania expect it to fall. With continued high oil prices, oil exporters should see rising fiscal and current account surpluses.

This outlook is subject to political and economic risks. For oil-importing countries, fiscal and current account balances may come under pressure from higher-than-expected oil prices or lower-than-expected prices for other com-

modities. The unwinding of global imbalances and higher oil prices could slow demand from advanced countries, which would impact growth in the region. A depreciation of the U.S. dollar against the euro could affect the exports of CFA franc zone countries. Political uncertainties in Côte d'Ivoire, the fragile security situation in the Great Lakes region, the border stand-off between Ethiopia and Eritrea, and disruption in oil production in the Niger Delta pose risks to the region's prospects; the spread of avian flu to Africa could also have major effects. On the upside, increased aid flows and recent efforts to lower the debt bur-

dens of some SSA countries through the MDRI should help countries allocate additional resources to achieving the MDGs and reducing poverty. Completion of the Doha Round negotiations could provide a fillip to world trade, including demand for goods produced by SSA countries (see Box 2.3, page 17).

However, millions of inhabitants of Eastern and Southern Africa are urgently in need of food and humanitarian assistance. Gross estimates of the affected population range from 11 million in Ethiopia to 5 million in Malawi, 3 to 5 million in Zimbabwe, 4 million in Burundi and Kenya, 2 million in Niger, and less than 1 million in Mozambique. The northern and eastern parts of Kenya are experiencing severe drought-related food shortages, and the government has declared the current famine a national disaster. In Ethiopia, an estimated 8.5 million people are now considered chronically food-insecure and in need of assistance. In addition, mainly as a result of drought conditions in the southeastern pastoralist areas, about 2.5 million people need emergency assistance; however, after two successive years of good harvests in Ethiopia, this is the lowest number in need of such assistance in over a decade.

SCALING UP AID: MACROECONOMIC IMPLICATIONS

African countries are likely to face macroeconomic challenges if they receive flows of official assistance that are significantly higher than in the recent past.[1] Net official development assistance (ODA) to developing countries is projected by the OECD (2005) to increase in real terms from slightly less than $80 billion in 2004 to almost $130 billion by 2010 (Figure 3.1).[2] The sharpest increase is likely to be in SSA, where the projected additional $25 billion will double the amount of ODA to about $50 billion in 2010. Several OECD countries have already indicated that they will double their aid to Africa over the next few years. The Development Assistance Committee (DAC) suggests that if an increase on this scale materializes, it will be the largest expansion of ODA ever measured by the DAC.

Real Exchange Rate

A key question is how higher aid will affect a country's real exchange rate, exports, and competitiveness. In general, foreign aid flows represent a real resource transfer and augment domestic resources, leaving the economy as a whole better off. But the macroeconomic impact depends on how a country uses the resources, and on the policy response. Of particular importance is how fiscal policy interacts with monetary and exchange rate management. Here two related but distinct activities are relevant: how aid flows are absorbed, and how they are spent (IMF, 2005c).

Figure 3.1. Net Official Development Assistance (ODA) of OECD Development Assistance Committee Members, 1990–2010
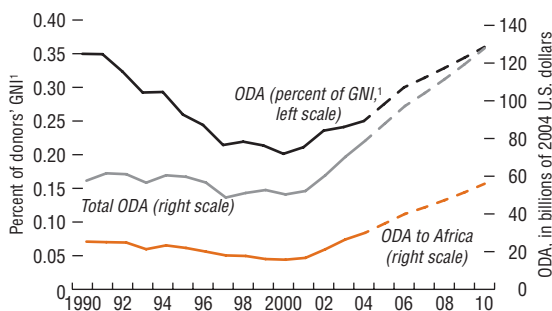
Source: OECD/DAC.
[1]GNI, gross national income.

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[1]The authors of this chapter are Sanjeev Gupta, Robert Powell, and Yongzheng Yang. The chapter draws particularly on Gupta, Powell, and Yang (2006).
[2]OECD Development Assistance Committee (DAC) projections are based on recent public statements by donors.

Absorption and spending reflect policy choices.[3] If the government spends aid resources directly on imports or if the aid is in kind (e.g., grain or drugs), spending and absorption are equivalent, so the aid has no *direct* impact on macroeconomic variables like the exchange rate, price level, or interest rate. But when a government receives foreign exchange resources and immediately sells them to the central bank, the government must decide how much of the local currency to spend domestically, and the central bank must decide how much of the aid-related foreign exchange to sell on the market. In general, therefore, spending is likely to differ from absorption.

Although countries have generally both absorbed and spent aid over time, they have tended to spend more than they absorb (IMF, 2005c). In response to recent episodes of aid surges, the governments of Ethiopia, Mozambique, Tanzania, and Uganda increased expenditures more than the increase in net imports. The main reason for the disparity between spending and absorption was the desire to maintain the exchange rate or to preserve competitiveness. Thus, the central banks of each country accumulated international reserves.

Some real exchange rate adjustment may be necessary, and indeed appropriate, in response to a sustained increase in aid. The aid will boost demand for both imported and domestically produced goods and services, including such public services as health care and education. Unless there is considerable excess supply in the economy or there are sustained productivity gains, prices of nontradables will increase compared with prices of tradables—i.e., the real exchange rate rises—to encourage resources to move from production of tradables to production of nontradables. As the real exchange rate appreciates, there is a contraction in tradables compared with nontradables—the so-called Dutch disease. These effects are likely to be stronger when trade is more restricted and production is at full capacity, because under such circumstances the ability of suppliers to respond to relative price changes is limited.[4]

Attempts to measure the relationship between aid flows and the real exchange rate in SSA date to the early 1980s. Although a number of studies have found that aid inflows tend to be associated with appreciation of the real exchange rate, econometric estimates often show that aid has only a small and statistically insignificant effect on it.[5] Moreover, some studies of African countries have found that aid inflows appear to be associated with real depreciation, reflecting productivity gains in the nontradles sector as a result of aid.[6] Aid that is *not* absorbed is not associated with any real exchange rate appreciation; as noted above, in a number of cases large amounts of aid went into reserves.

Some have argued that in countries that receive more aid, export-oriented, labor-intensive industries grow more slowly than other manufacturing industries (Rajan and Subramanian, 2005b). They find that this effect stems from the real exchange rate appreciation caused by aid

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[3]Aid *spending* is defined as the widening of the government fiscal deficit net of aid that accompanies an increase in aid; it captures the extent to which a government uses aid to finance an increase in expenditures or a reduction in taxation. Aid *absorption* is defined as the extent to which a country's non-aid external current account deficit widens in response to an increase in aid inflows. This measure, which captures the value of net imports financed by an increase in aid, represents the additional transfer of real resources the aid makes possible. For a given fiscal policy, absorption is effectively controlled by the central bank. Note that this definition of absorption is different from the one commonly used to measure the aggregate of consumption (government and private) and investment.

[4]It is therefore important to integrate trade policy into poverty reduction and growth strategies when aid is being scaled up. Many countries have in recent years prepared Diagnostic Trade Integration Studies (DTIS) under the Integrated Framework, which was established in 1997 by the WTO, other development partners, and the IMF, to help coordinate trade-related technical assistance to low-income countries. DTIS have been completed for 10 countries in SSA.

[5]See, for example, Younger (1992), Kasekende and Atingi-Ego (1999), and Adenauer and Vagassky (1998). More broadly, Prati and Tressel (2006) suggest that adjusting net domestic assets of the central bank can smooth aid-driven fluctuations in the trade balance.

[6]See, for example, Nyoni (1998), Sackey (2001), and IMF (2005c).

inflows, suggesting that aid does lead to Dutch disease. Similarly, Prati and Tressel (2006) also find that aid tends to cause the trade balance to deteriorate by depressing exports. On the other hand, an IMF study (2005d) finds that, in most of the countries in SSA that have experienced sustained growth, the currency did not become overvalued during the growth period. Their avoidance of exchange rate misalignment was closely linked to macroeconomic stability, reinforcing the case that countries that receive aid must manage their economies prudently.

Sterilization of Aid Inflows and Inflation

A country's monetary authorities can sterilize the liquidity injection from aid inflows by selling either domestic bonds or central bank foreign reserves;[7] some countries have done both. Given concerns about their competitiveness, African countries have often preferred domestic sterilization because foreign sterilization increases the supply of foreign exchange, creating pressure for a nominal appreciation of the exchange rate.[8] Atingi-Ego (2005) suggests a roughly 50:50 rule, but experience in Uganda seems to argue in favor of sterilizing through foreign exchange sales, because exchange rate appreciation does not seem to hurt nontraditional exports. A similar response emerged in Tanzania because of the need to balance the pressure on prices from increased liquidity and the pressures on interest rates from domestic sterilization and on exchange rates from increased foreign exchange sales. Countries receiving higher aid flows may need to show more willingness to absorb (and ultimately spend) aid, selling the foreign exchange over time and letting the exchange rate appreciate (IMF, 2005c).

Scaling up aid flows to Africa may generate additional inflationary pressure as domestic demand increases. The existence of a negative relationship between inflation and growth at higher rates of inflation is empirically well supported. By contrast, identifying the growth effects of moving from, say, 5 percent inflation to 20 percent is challenging. Significant adverse growth effects have been found only for brief periods of high inflation (Bruno and Easterly, 1998), after which growth tends to return to its long-run path. However, several other studies (e.g., Khan and Senhadji, 2001) suggest that the Bruno-Easterly result may understate the adverse effects of moderate inflation on growth.

Quantifying the link between inflation and economic growth requires careful attention to the nonlinearities in their relationship. Since Fischer (1993), several authors have tried to locate the "kink" in the relation between inflation and economic growth—i.e., the level of inflation at which growth is not affected. Empirical studies of panels of countries have located this kink at between 3 percent and 40 percent inflation, with a majority finding it in the 5–10 percent range. While this range can serve as a general guide, countries should formulate their own inflation target in the context of scaling up, depending on economic conditions.

Impact on Revenues

Higher flows of aid should not reduce Africa's efforts to raise revenues. Countries need to maintain or increase revenues while aid is increasing, in order to guard against the uncertainty of donor behavior, to prepare for aid flows to eventually taper off, and to contain aggregate demand arising from increased spending. Where lower revenue collections reflect weak compliance or unnecessary tax exemptions, they are likely to breed aid dependency. A weaker collection effort can also adversely affect domestic institutions. The argument that reducing tax rates is an optimal response to permanently

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[7]Other options for sterilizing liquidity include increasing reserve requirements or making a one-off transfer of public deposits from commercial banks to the central bank.

[8]To mitigate appreciation pressures, the authorities can choose to relax controls on capital outflows—for example, by easing surrender requirements on foreign exchange earnings or permitting local institutions to invest abroad.

higher aid flows holds less weight for African countries that are currently below their potential for raising tax revenues.

Maintaining revenue efforts in the face of increased aid can also help address the volatility and unpredictability of aid flow. Heavy dependence on volatile aid can constrain policymakers' ability to undertake medium-term planning. Bulíř and Hamann (2005) estimate that, on average, aid flows are 6 to 40 times more volatile than fiscal revenue. Moreover, unpredictability of aid can limit the government's ability to meet its expenditure targets, or lead to actions that may reduce macroeconomic stability (Celasun and Walliser, 2005). Thus, aid volatility and unpredictability can result in substantial welfare losses.

The empirical evidence on how aid flows affect domestic revenue collections is mixed, with findings about the magnitude, sign, and significance of the impact all varying by study. With a few notable exceptions, however, the impact of aid has generally been found to be either negative or insignificant. The composition of aid (loans or grants) as well as the amount of corruption in a country is important in assessing the likely pressures on its revenue effort. Gupta and others (2004a) suggest that the need to repay loans leads policymakers to increase their domestic revenues or at least maintain their collections. Because grants are free resources that can substitute for domestic revenues, they are more likely to dampen domestic efforts to collect more revenue.

Most African countries should aim for a tax ratio of at least 15 percent of GDP.[9] By pushing to collect more revenue, aid-dependent countries can gradually wean themselves from aid. A strengthened revenue effort is also consistent with the recommendations of the U.N. Millennium Project (2005), which called for countries to mobilize additional domestic resources of 4 percent of GDP through, for

example, more vigorous tax collection. In many countries the tax effort is below potential, partly because the tax base is narrow. Countries like Tanzania and Uganda are broadening their tax base in order to reduce aid dependency over time. Countries receiving higher aid should help revenue institutions to strengthen their capacity to generate additional revenue permanently.

Impact on Growth

The debate on how effective aid is in stimulating growth has not been resolved. Some researchers suggest that aid has either no effect on growth or a negative one. Others suggest a positive effect, but with diminishing returns. Still others argue that aid works when a country has good policies but not otherwise.

Aid can have moderate effects on measured growth. Early skepticism about the role of aid in promoting economic growth was based on the potential disincentive effect aid has on investment and on private sector development (Bauer, 1972). Subsequent empirical research seemed to support this skepticism, finding little or no link between aid and growth (Mosley, 1980; Singh, 1985). However, more recent research suggests that different types of aid are likely to have different effects on growth; not all aid is intended to stimulate growth (Radelet, Clements, and Bhavani, 2004).[10] Some research also suggests that higher public investment in SSA can "crowd in" private investment (Green and Villanueva, 1991; Hadjimichael and Ghura, 1995; Ghura and Goodwin, 2000; and Belloc and Vertova, 2004). This finding likely reflects the complementarity of private investment with some components of public investment, especially in infrastructure (Odedokun, 1997). Countries benefiting from higher aid flows should therefore strengthen both their investment climate and the financial sector.

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[9]Adam and Bevan (2004) speak of a consensus that the tax ratio for poststabilization countries should be in the 15–20 percent range, and IMF (2005d) suggests at least 15 percent as a reasonable target for most low-income countries.

[10]This finding has been questioned by Subramanian and Kumar (2005).

Some cross-country regressions have quantified the link between higher social or public investment spending and per capita growth. Of particular relevance to SSA is the study by Gupta and others (2004b) covering 39 IMF program countries, of which 24 are in SSA. It found that an increase in capital outlays of 1 percent of GDP increases growth by 0.7 percent over a five-year period. In a larger sample of 120 countries, Baldacci and others (2004) simulated the increment to long-run growth from permanent increases of 1 percent of GDP in education and health spending. For education, per capita GDP growth would be, on average, 0.9 percent higher and for health outlays, 0.4 percent higher. These estimates are derived from the experiences of countries where the elasticity to imports is less than 1, meaning that higher aid flows do not all leak to imports.

The effectiveness of aid may depend on the policies and institutions of the recipient country (Burnside and Dollar, 2000; Collier and Dollar, 2002). Radelet (2004) and Clemens and Radelet (2003) relate aid effectiveness to the quality of institutions, governance, and policies of the recipient.[11] Collier and Dollar (2002) model a link between aid impact and the World Bank's Country Policy and Institutional Assessment index, which ranges from 1 (lower quality) to 6 (higher quality). For a country with a score of 2, the saturation point—the point at which the positive impact of aid falls to zero—is about 19 percent of GDP; where the score is 4.5, the saturation point is 43 percent. This result is consistent with other evidence that the effectiveness of public expenditure depends on the quality of institutions (Baldacci and others, 2004). Rajan and Subramanian (2005a), however, are more cautious about concluding that there is a link between aid and growth.

How output responds to significantly higher public expenditures also depends on diminishing returns to spending, the pace at which output converges to a new steady state, and supply constraints. Box 3.1 describes an IMF study that

examines the macroeconomic implications of a hypothetical doubling of assistance to Ethiopia based on a set of assumptions about these conditions. This study illustrates how in practice a scaling-up scenario may be analyzed.

Some case studies have shed light on how the use of aid may affect growth in country-specific circumstances. A multidonor study on pro-poor growth in certain African countries (Agence Française de Développement and others, 2005) found that aid inflows fostered higher growth in the 1990s. The case studies it analyzed looked at both the impact of aid on growth and the ability of the poor to participate in growth. Aid had the greatest effect on growth in Uganda, operating through reconstruction, improved economic management, social sector programs, and improvements in public administration. It also helped relax constraints on growth caused by debt burdens. Similarly, in Ghana aid both supported macroeconomic stabilization and boosted social sector programs that might otherwise have been cut because of scarce resources. While the other case studies (Zambia, Burkina Faso, and Senegal) explored the effect of aid in less detail, in all cases aid was found necessary for financing health and education programs—the human capital component of the growth process.

The strength of fiscal systems is an important determinant of how aid inflows affect growth. This conclusion emerges from studies by the Overseas Development Institute of the fiscal impact of aid in Malawi, Uganda, and Zambia (Fagernäs and Roberts, 2004). The strongest effect was found in Uganda; the main benefit of aid in Malawi and Zambia was that it protected critical social and public investment programs at a time of national fiscal stringency and policy slippage.

One factor that impinges on aid effectiveness is the performance of the mechanisms for allocating aid. Uganda came closest to having a single integrated budget framework for all funding sources that allowed aid to be directed to its most productive use, which accentuated the

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[11]However, the Burnside-Dollar results have been challenged by Easterly, Levine, and Roodman (2004).

Box 3.1. Ethiopia: Scaling Up

Ethiopia, one of the poorest countries in Africa, presents one of the biggest development challenges in the region.[1] The government, the United Nations Country Team, and the World Bank consider that, on current trends, Ethiopia is likely to meet only MDG 2 (achieving universal primary school enrollment) and a subset of MDGs 1 (eradicating extreme poverty and hunger), 3 (promoting gender equality and empowering women), and 7 (ensuring environmental sustainability). Boosting average annual real GDP growth to the government's target rate of 7 percent—to halve income poverty by 2015—would require, in addition to the proposed increase in external aid, significant progress with structural reforms (Figure 1).

Figure 1. Ethiopia: Selected Fiscal Indicators
(Percent of GDP)
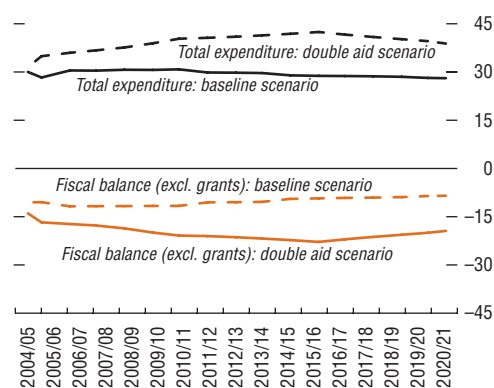
Sources: Ethiopia, Ministry of Finance and Economic Development; and IMF staff estimates and projections.

Sources of Growth

The government aims to increase annual agricultural growth from 2.2 percent historically to 7.5 percent. Higher growth would require major increases in public and private sector investment and productivity. The productivity gains required to reach the growth target suggest the need for significant progress in the privatization of remaining public enterprises, removal of impediments to private sector activity, development of the domestic financial sector, and improvement in infrastructure and access to urban land.

Strong Fiscal Management

Achieving the MDGs will require a significant boost to public expenditure. The figure depicts a hypothetical scenario of doubling official development assistance from 11 percent of GDP in 2003 to 22 percent by 2015. This scaling up of aid would mean raising poverty-reducing spending from about $20 per capita in 2003 to about $78 by 2015. It would also reorient spending toward recurrent expendi-

ture, primarily through higher outlays on wages and salaries. Following the extensive devolution of spending to regions and districts, the challenge will be to build the capacity of subnational governments to spend these resources efficiently.

With all the additional external financing assumed to be in the form of grants, concerns remain about continued aid dependency even though grants do not worsen debt sustainability. If revenue is held at 19 percent of GDP (maintaining Ethiopia's performance over the past five years), the budget deficit excluding grants would remain high after 2015, reflecting the impact of MDG-related expenditure.

Trade Repercussions

The potential for high aid flows to create wage and price pressures underlines the need for reforms to alleviate pressure for a real exchange rate appreciation, particularly through further liberalizing trade, eliminating exchange restrictions, and streamlining customs procedures. These steps would help ensure that part of the increased domestic demand would be channeled abroad.

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[1]This box is drawn from Andrews, Erasmus, and Powell (2005).

growth effect. Malawi and Zambia, however, continued to rely on a traditional assignment of aid inflows to specific development programs, even when the programs did not promise the highest growth impact.

The sequencing and composition of aid require special attention in countries that have recently emerged from conflict. These countries face more severe constraints than the typical recipient of increased aid: basic institutions must be rebuilt before attention can turn to prospects for reaching the MDGs.[12] If rebuilding is successful, law and order are restored, and displaced people return, growth can rebound rapidly. Under such circumstances, aid is found to be effective, although to be optimal its composition should change over time (Collier and Chauvet, 2004). The amount of aid recommended for postconflict countries is similar to that in the scaling-up program. Thus, once the first stage of state rebuilding is complete, the challenges discussed here are also relevant for postconflict countries.

Other Fiscal Issues

Fiscal policy can become more complicated as aid increases (Heller, 2005). Once a government scales up the expenditures associated with hiring workers, delivering services to the public, and maintaining new infrastructure, it must decide what to do should donors not sustain the aid. If a government finds it difficult to reduce expenditures, including those on public sector wages, from the levels it had previously financed through aid, the pressure for domestic financing of the ensuing deficit may increase significantly. This scenario underlines the importance of formulating an exit strategy, a macroeconomic path the country can take after aid falls to more normal levels.

Higher aid flows can lead to wage pressures. Since a large part of social sector employment (e.g., in health and education) is in the public sector, when public sector wages rise because they are financed through aid, the pressure to raise wages elsewhere in the domestic economy—for example, in manufacturing—might also rise. This channel from higher aid to higher manufacturing wages leads Rajan and Subramanian (2005b) to conclude that aid has a negative impact on export competitiveness. They suggest that when aid is instead allocated to improving export supply response, the poor gain more because they often have stronger links to the export sector.

Although Africa has raised social spending in recent years, it has not always successfully directed the spending toward poor households.[13] There may also be a trade-off between short-run poverty reduction or sectoral growth and overall growth. For example, under certain circumstances aid may have the highest return in terms of growth when it is used to improve the supply response of the nontradables sector, as suggested by Adam and Bevan (2003), but policies directed at promoting growth may not be pro-poor in the short run because the incomes of the poor may be less closely linked to growing sectors.

Because sectoral bottlenecks are difficult to anticipate, aid impact indicators should be monitored regularly. The general principle is to avoid imposing too rapid an adjustment on any one sector. Special problems arise when donors channel aid through nongovernmental organizations (NGOs). Shifting allocations to NGOs does not in itself avert macroeconomic absorption constraints, because these relate to *aggregate* supply responses in both tradable and nontradable goods. Furthermore, to prevent duplication it is important to ensure that NGO spending plans

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[12]Gupta and others (2005) examined the challenges and experiences in building fiscal institutions and capacity in the Democratic Republic of the Congo and Mozambique.

[13]Reviewing the experience of 56 countries from 1960 to 2000, Davoodi, Tiongson, and Asawanuchit (2003) found that the targeting of social sector spending on the poor in SSA was very ineffective. Chu, Davoodi, and Gupta (2004) suggest that, in a sample of 29 developing and transition economies, SSA is the only region where government health spending is poorly targeted.

are coordinated with those in the government budget. Channeling aid through NGOs also carries the risk of detracting from efforts to build public sector capacity to deliver social services.

Strengthening the capacity of subnational governments is essential in countries where a substantial proportion of social spending is devolved to lower levels of government (see Chapter V). For example, Uganda has delegated provision of most social services to local governments, transferring about 40 percent of the central government budget to the highest local government tiers. However, the central government's ability to monitor use of these resources is weak. Central governments need to assess how well subnational governments can execute and report social spending and what capacity building at different levels donors can support.

When the public sector is ill equipped to expand its delivery of services, an alternative is to work with the private sector. Governments can encourage the private sector to do more by improving the environment in which it delivers services. Public-private partnerships (e.g., through subcontracting public services to the private sector) could be explored on the basis of a robust legal, regulatory, and institutional framework, including the capacity to assess, mitigate, and manage fiscal risks. Although this strategy may raise concerns about access of the poor to these services, the poor in any case often rely heavily on private health and education services because governments have often failed to deliver public services to them. In fact, the World Bank's *World Development Report 2004* shows that private expenditures on health care in SSA are as large as public expenditures; the richest households in the region had higher proportions of attended births and respiratory disease treatment in public facilities than poorer households did. The public-private mix differs by service, with public facilities generally doing more preventive care like vaccinations and private facilities treating illness.

Though private education is common in SSA, the private provision of utilities and infrastructure services is less common. Where private participation has taken root, the private sector's response to the increased demand for services may well be more rapid than the public sector's, ameliorating capacity constraints. Transfer schemes like vouchers may be used to help the poor access services as private participation expands.

Governance and Growth

Good governance is essential if higher aid flows are to be effective (Commission for Africa, 2005). Major donors have made this point regularly, most recently at the July 2005 summit of the Group of Eight industrial countries in Gleneagles, Scotland. Thus, if countries in need of aid strengthen governance as part of the supporting program of reforms, donors will be more likely to provide the higher aid that is assumed in scaling-up scenarios.[14]

In recent years, researchers have increasingly recognized the adverse impact of corruption and poor governance on economic and social outcomes. Pervasive corruption tends to be associated with poorly enforced property rights, a weak rule of law, and weak incentives for productive investment, all of which damage economic growth. Beyond the effect of poor governance on growth, there is a self-reinforcing cycle of poor governance and detached governments: citizens demand little from their government because they do not expect the demands to be met. The contribution to the scaling-up agenda that improved governance can make is difficult to quantify.

Empirical research has highlighted the impact of corruption on growth, public finances, poverty, income inequality, and the provision of social services. Mauro (1995), for example, suggested that an increase in corruption by one unit on a scale of 1 to 10 (with a higher score

[14]The link between aid and governance is a central feature of the U.S. Millennium Challenge Account, which channels aid directly to specific country priorities. Country eligibility for aid is determined by a set of indicators, including one for corruption. Similarly, the World Bank links its country assistance to Country Policy and Institutional Assessment ratings.

indicating more corruption) would lower real per capita GDP growth by 0.3 to 1.8 percentage points; Leite and Weidman (2002) and Abed and Davoodi (2002) reported a somewhat narrower range, centered on about 1 percent.

To absorb larger amounts of aid, countries must have well-functioning PEM systems. PEM systems will also help them reduce the transaction costs of meeting donor-specified requirements and contribute to improved governance by helping citizens ensure that public resources are used transparently and efficiently. The governments of countries with viable PEM systems are better able to implement scaling-up scenarios by tilting expenditures toward desired activities. Donors are reassured that their resources will be used for the intended purposes in countries whose PEM systems function well.[15] Here policies to introduce greater transparency, stronger rules governing budget procedures and reporting, and the preparation of medium-term expenditure plans are helpful.

Debt Sustainability and Management

Countries receiving higher aid flows must keep public and external debt sustainable. Increased aid can have a significant impact on macroeconomic developments that are fundamental to debt dynamics because it is likely to affect the recipient country's GDP growth, fiscal position, interest rates, and balance of payments. Even if *all* the additional financing is assumed to be in the form of external grants, a debt sustainability assessment (DSA) will not necessarily show improvement in the debt burden over time compared with the baseline if resources are wasted. If the increased aid a country receives includes high levels of concessional loans or domestic borrowing, an updated DSA for both external and total public debt is essential. The updated DSA should cover a long time horizon, such as 20 years from the base year. This long time frame is necessary because the maturity

(and hence the debt-servicing implications) of increased scaling-up loans may itself be long, and principal repayments on new loans could raise debt-service obligations precisely when the amount of aid is declining.

If countries strengthen their debt-management institutions, scaled-up lending is less likely to cause them to build up excessive debt. An effective debt-management system needs to be maintained and strengthened, at both national and subnational levels. Bangura, Kitabire, and Powell (2000) note that, although debt-management institutions may differ from country to country, in all they should focus on (1) formulating and communicating debt-management policies and strategies, (2) providing the projections and analysis to support policymaking, and (3) undertaking operations to implement terms of loan agreements and maintaining comprehensive and up-to-date loan records. All public and publicly guaranteed debt should be contracted under rules that are clearly understood by all public agencies and that are monitored centrally.

Conclusions

Governments should aim to implement policies to strengthen the positive impact of aid on growth. Aid may temporarily raise living standards but it does not automatically increase growth. The debate on how higher aid affects growth increasingly differentiates between types of aid. There may be a trade-off between directing aid toward achieving growth (e.g., spending on infrastructure) and toward relieving poverty in the short run (e.g., earmarking it for rural areas). Aid will have diminishing returns more quickly where there are serious supply bottlenecks, but these are often difficult to identify in advance. It is important, therefore, for governments to have policies that allow them to use larger amounts of aid effectively and to remain alert for emerging supply pressures. Countries are likely to use aid more easily if they spend it

[15]The most recent World Bank and IMF assessments of PEM systems in highly indebted poor countries found that 16 countries in Africa required substantial upgrading, 4 required some upgrading, and only 2 required little upgrading.

gradually rather than rapidly. Sound PEM institutions, public auditing bodies, and good governance are also likely to increase the benefits of aid, allowing more funds to be channeled to productive uses and reassuring donors that their money is being well spent.

When aid flows increase, a country has to choose how much to absorb through imports and how much to spend through the budget. While a country may take the opportunity afforded by higher aid to build up its foreign exchange reserves and reduce its domestic debt burden, it will typically absorb and spend most of the aid. This raises the possibility of a real exchange rate appreciation and of productive resources moving away from exporting sectors as higher domestic demand raises the price of nontradables relative to tradables. The experience in Africa suggests, however, that aid, appropriately used, can lead to productivity gains in the nontradables sector that more than offset the price pressure arising from higher domestic demand. A sound understanding of what a country will spend additional aid on, as well as of the likely macroeconomic impact, is therefore critical in formulating policy responses. Higher spending on infrastructure bottlenecks, which may act faster on productivity in the non-

tradables sector, can help mitigate symptoms of Dutch disease. Liberalizing trade will increase the import content of additional public spending and hence reduce the pressure for real exchange rate appreciation.

Governments receiving higher aid flows face the challenge of what to do if donors do not sustain the aid. If aid drops, governments may have difficulty reducing expenditures they had previously financed with aid, and the pressure for higher domestic financing of the deficit may increase significantly. It is thus clear that countries need an exit strategy for a time when aid once again falls. Countries also need to maintain their revenue collection efforts and strengthen their tax systems. In the past, aid has been unpredictable and volatile. Governments may choose to smooth the impact of aid volatility by projecting accumulation or deaccumulation of reserves, recognizing that this will affect monetary management. Countries must also allow for sufficient current spending to maintain capital investment. When countries are seeking significant new loans, it is critical that they regularly update the DSA and create government institutions that can craft and administer a clear and transparent public debt-management strategy.

FINANCIAL SECTORS: ISSUES, CHALLENGES, AND REFORM STRATEGIES

Financial sectors in low-income sub-Saharan Africa are among the world's least developed (Appendix Table A2).[1] The range of institutions is narrow, and assets in most low-income African countries are smaller than those held by a single medium-sized bank in an industrial country. Most people do not have access to even basic payment services or savings accounts, and the largest part of the productive sector cannot obtain credit. Some middle-income African countries perform notably better, however.

The absence of deep, efficient financial markets seriously challenges and constrains policy-making. Limited access to finance lowers welfare and hinders poverty alleviation and the emergence of an economically active middle class. Lack of credit to the economy constrains growth. Finally, implementing monetary policy in the context of shallow markets is costly and inefficient.

Financial development increases economic growth through a number of channels. Finance mobilizes and pools savings; produces information on possible investments so that resources can be channeled to their most productive use; monitors the use of funds; facilitates the trading, diversification, and management of risk; and eases the exchange of goods and services (Levine, 1997 and 2004). Empirical studies confirm that countries with better-functioning financial systems grow faster, and that the result does not seem to be driven by reverse causality. The link between finance and growth operates importantly through overcoming external financing constraints that otherwise hinder firm expansion. Among SSA countries other than oil producers, the economies that grew the fastest between 1960 and 2004 are those that are the most financially developed (Appendix Figure

A1). Because it is a high-risk environment, exposed to terms-of-trade shocks and a volatile climate, SSA would benefit if financial development facilitated greater risk sharing through portfolio diversification, consumption smoothing, and insurance. Finally, access to formal financial institutions could help surmount inefficient and costly strategies for coping with risk and obtaining capital (Collier and Gunning, 1999).

Financial development also helps reduce poverty. Theory suggests that financial development reduces credit constraints on the poor—for whom financial market imperfections are particularly binding (Galor and Zeira, 1993). The mechanisms are wide ranging: from alleviating credit constraints, so that households can invest in education, to insuring against shocks. Finance can also allow small firms and individuals to make use of new growth opportunities that arise when markets open.

This chapter argues that deeper and more efficient financial markets will improve Africa's economic prospects. Based on a review of the key features of financial systems, it discusses the main obstacles and challenges financial structures pose for African economies. It then reviews ongoing reform efforts, and the extent to which they have already set in motion changes for the better. Recognizing that a vast reform agenda remains, the chapter concludes by discussing steps that could address major shortcomings.

Key Characteristics

Institutional Coverage and Ownership

Financial sectors in low-income SSA are small. Banks are the dominant institutions. Insurance,

Box 4.1. Financial Development in Middle-Income Sub-Saharan African Countries

On average, financial sectors in the few SSA middle-income countries are significantly deeper, sounder, and more diversified than in the majority of African countries. While this report concentrates on low-income countries (LICs), the successes of middle-income African countries are noteworthy. Their relatively good performance is only in part explained by higher income. At the same time, the middle-income oil economies face many of the same challenges as LICs.

SSA's middle-income countries have much larger financial sectors and broader institutional coverage. Key financial depth indicators in middle-income SSA[1] are comparable to or higher

[1]SSA middle-income countries are Angola, Botswana, Cape Verde, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles, South Africa, and Swaziland.

than in other middle-income countries (Table 1), though this is to some extent driven by South Africa's far more mature financial sector. While financial depth ratios in middle-income SSA countries other than South Africa are still substantially higher than in low-income SSA countries, they are lower than in middle-income countries in other developing regions. On private sector credit, South Africa's ratio, at almost 80 percent to GDP, is among the highest in the developing world, and Botswana, Mauritius, and Namibia also compare favorably with other developing regions. Institutional coverage—in particular, the insurance and pension sectors—tends to be much broader in the southern African middle-income countries and Mauritius.

More sizable financial sectors in middle-income SSA countries have given their populations greater access to financial services. Branch density is approximately 10 times higher in

Table 1. Indicators of Financial Development by Income Group

| | Sub-Saharan Africa | | | | | | Other | |
| | Low-income countries | | Middle-income countries | | Middle-income countries without South Africa | | Middle-income countries | |
	1990–99	2000–04	1990–99	2000–04	1990–99	2000–04	1990–99	2000–04
Bank deposits/GDP	13.6	18.0	44.5	50.7	29.7	29.2	31.7	39.4
Private sector credit/GDP	12.3	13.3	52.1	64.0	21.5	21.0	39.4	40.3
M2/GDP	21.9	26.9	49.8	55.6	35.0	32.1	77.3	94.2
Liquid liabilities/GDP	19.1	23.8	47.9	53.4	34.5	32.5	36.6	41.2

Source: IMF, *International Financial Statistics.*
Note: The average weight of South Africa among middle-income countries over the 2000–04 period is 84.5 percent.

the few stock markets, nonbank financial intermediaries (NBFIs), and microfinance are all small sectors, although the last two are growing rapidly. In most of SSA, banking sectors still cover more than 80 percent of the assets in the financial system, though the few middle-income

countries have larger financial sectors and broader institutional coverage (see Box 4.1).[2] SSA banking systems have higher shares of foreign ownership; state banks are less important than in other low-income countries (LICs) (Appendix Table A3).

[2]This section draws on a wide variety of data sources, including recent country-level Financial Sector Profiles, prepared by the IMF African Department. Country-level studies of financial markets conducted in the IMF's African Department were also used (Uganda: Peiris, 2005; Botswana: Kim, 2004; Lesotho: Gershenson, 2004; Kenya: Powell, 2003; the Democratic Republic of the Congo: Clément, 2004).

middle-income than in low-income SSA countries ones (Table 2). The proportion of the population with bank accounts is also higher: Botswana and South Africa have the highest access in the region; almost half of the population have accounts.

Banking sectors in middle-income SSA countries have lower costs and are more efficient; moreover, they exhibit stronger financial soundness indicators. Specifically, they have substantially lower overhead costs and lower net interest margins—indicating higher efficiency—compared with both low-income SSA countries, and other lower-middle-income countries. On soundness, at 6.8 percent in 2004, nonperforming loans as a percent of total loans were sub-

stantially lower than in low income SSA countries (17.5 percent). By 2004 capital adequacy and liquidity ratios were comparable between the two groups, reflecting recent improvement in the low-income group.

Banking in oil producers, Angola, Gabon, and Equatorial Guinea, is different from banking in the other middle-income countries. Lending to the private sector is very limited, and branch network density and access are even lower than in most low-income SSA countries. The number of banks in these countries is low relative to the size of the economy, reflecting limited lending opportunities in the non-oil economy. Challenges in these countries are therefore similar to those discussed in the rest of this chapter.

Table 2. Access, Soundness, and Efficiency Indicators by Income Group, 2004

| | Access | | | Soundness | | Efficiency | | |
| | | | | Capital adequacy ratio (percent of risk-weighted assets) | Non-performing loans (percent of total loans) | | | |
	Population with formal bank account	Branch network per 100,000 inhabitants	Branch network per 1,000 sq. km.			Interest margin (percent of assets)	Overhead (percent of assets)	Profits (percent of assets)
Sub-Saharan Africa	12.6	2.6	4.3	15.5	14.7	8.2	7.4	3.0
Low-income countries	7.0	1.2	1.1	15.7	17.5	8.5	7.7	3.2
Middle-income countries	25.3	5.6	11.4	16.5	6.8	6.7	6.4	2.3
without South Africa	21.9	5.6	12.4	16.9	7.5	6.6	5.2	3.5

Sources: Beck, Demirgüç-Kunt, and Peria (2005); IMF Financial Sector Profiles; Claessens (2005); and calculations from IADB bank-level data.
Note: The efficiency indicators are the averages for 2000–03.

Soundness

Based on standard indicators, most banking systems are on average reasonably sound, but weaknesses persist in some countries and in individual institutions. Banking systems generally are significantly stronger than in the 1990s, when the continent experienced a number of banking crises. On average, banking sectors exhibit similar levels of basic soundness as in other LICs; they are adequately capitalized and highly liquid (Appendix Tables A5 and A6 and Figure A2). However, in many countries individual banks

fail to meet tests of basic adequacy, a sign of persistent problems in banking supervision, and there are high levels of nonperforming loans and other weaknesses (Appendix Figure A3). Finally, in the context of forbearance, measured soundness indicators may overstate actual portfolio quality.

Financial soundness indicators may not always be a sufficient yardstick for assessing outcomes for SSA. While less diversified LICs should ideally have higher capital adequacy ratios to reflect their higher credit risk, few SSA coun-

tries set minimum capital adequacy ratios above 8 percent. Other prudential ratios, such as those limiting single-client or sectoral exposures, are often violated because SSA economies lack sufficient lending opportunities.

Efficiency and Profitability

Though banking systems are concentrated, they are becoming more competitive. The share of banking assets held by the three largest banks is about one-tenth higher for SSA than other LICs (Appendix Figure A4). The small market size is a major factor contributing to concentration, given the need for institutions to reach economies of scale and scope (Bossone, Honohan, and Long, 2002) (Appendix Figure A5). In 2002–03, after continued bank restructuring and privatization, average SSA concentration ratios declined from the 1996–99 period. The increased share of foreign ownership since 2000 indicates some market contestability.

Banking sectors in low-income SSA are less efficient than global comparators. For all banks, including foreign-owned institutions, low efficiency leads to high overhead and net interest margins that are higher in low-income SSA than in other LICs (Appendix Table A7).[3] Cross-country research has found that banking market efficiency is negatively correlated with inflation, corruption, and concentration (Detragiache, Gupta, and Tressel, 2005, and Appendix Table A8). Even accounting for these factors, a dummy variable for SSA countries is significant, indicating that the operational efficiency of banking in SSA is lower than would be predicted. While banking sector operational efficiency recently declined further in low-income SSA, the efficiency indicators are con-

siderably better in SSA middle-income countries.

Despite high overhead costs, SSA banks are profitable. Their main income source is from interest-related items. Given noncompetitive market structures, banks can charge high interest margins and remain profitable, the difficult operating environment notwithstanding. In fact, the market power of banks is large enough to support higher profitability than in other LICs, given the large gap between what banks can charge borrowers and what they pay savers. Loan loss provisioning levels are similar to those in other LICs.

Financial Markets, Instruments, and Market Infrastructure

Reflecting the importance of cash, financial depth indicators in low-income SSA are the lowest in the world. The ratios of narrow (M1) and broad (M2) money to GDP are common indicators of financial depth. As financial sectors deepen, the expectation would be for both ratios of M1 and M2 to GDP to increase, but for M2 to grow faster than M1, with a corresponding decline in the ratio of M1 to M2. In low-income SSA countries, these financial depth measures have always been low. Since the 1990s the M1 ratio has been increasing faster than M2, though it has been leveling off since 2000 (Figure 4.1, Panels A and B). Africa now has the highest M1/M2 ratio even among LICs; other regions have thus made faster progress in moving to noncash forms of money.

The financial intermediation role of banks is less pronounced than in other LICs. Bank deposits were only 19 percent of GDP in low-income SSA in 2004, compared with 38 percent

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[3]Both aggregate and bank-level data are calculated from Bankscope. In SSA, 34 countries are covered; within these countries, 381 banks of a total of 453 counted in the IMF African Department, Financial Sector Profiles. Because the unit of observation is the bank, averages across SSA are in effect weighted toward countries with more banks. Whether this is more appropriate than using the aggregate depends on whether the concern is the typical SSA banking system or the typical SSA bank.

elsewhere (Figure 4.1, Panel C). Similarly, private sector loans were only 13 percent of GDP in 2004, reflecting decades of sluggish growth in lending (Figure 4.1, Panel D). While the reasons for the slow growth in banking activities are manifold, they are—in part—related to the aftereffects of banking crises as well as legal and institutional weaknesses (see the next section). Private deposits and credit in the CFA countries are still stagnant after the sharp contraction that followed the regionwide banking crises in the late 1980s (Box 4.2).

Minimal interbank activity is a sign of immature financial markets. In more advanced countries the bulk of financial sector activities takes place among financial institutions. Such trades help market efficiency and the trading of risk; deepening interbank markets are signs of maturing financial systems. Not all SSA countries systematically collect interbank data, but evidence from the West African Economic and Monetary Union (WAEMU) and Economic and Monetary Community of Central Africa (CEMAC) suggests that stagnation or a very slow recovery followed earlier declines (Appendix Table A9). The absence of functioning interbank markets reflects a combination of macroeconomic factors, the presence of excess liquidity, and also lack of collateral and other obstacles.

Efforts to promote better financial market infrastructure are ongoing but have not yet increased market activities. Many African countries are improving their financial sector infrastructure. For example, WAEMU and CEMAC recently put in place or are now implementing state-of-the-art real-time gross settlement (RTGS) and retail payments systems.[4] Most SSA countries that introduced treasury or central bank bills have moved or are moving from paper-based securities to book-entry systems.

[4]Other countries are also considering regional solutions for payments and settlements systems—given economies of scale and cost sharing—but outside of monetary unions regulatory and supervisory problems are more difficult to resolve.

Figure 4.1. Sub-Saharan Africa and Comparator Groups: Financial Depth Indicators
(Percent)

A. Ratio of M1 to M2

B. Ratio of M2 to GDP

C. Ratio of Bank Deposits to GDP

D. Ratio of Private Credit by Deposit Money Banks to GDP
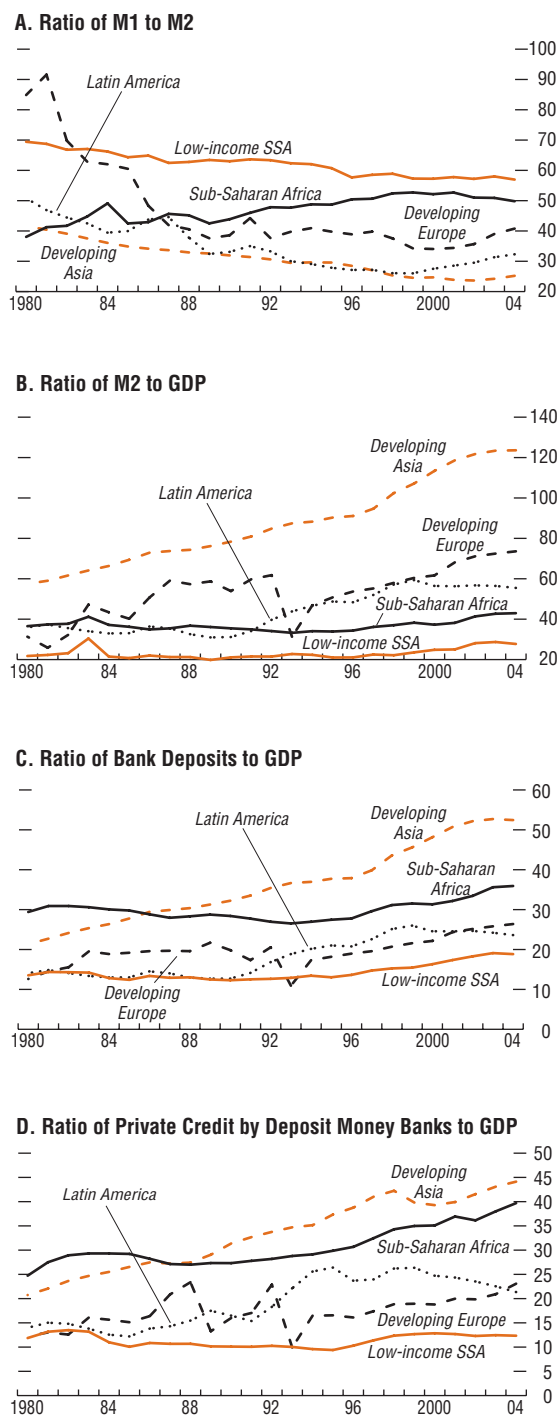
Source: IMF, *International Financial Statistics*; and *World Economic Outlook.*

Box 4.2. The Long-Term Costs of Banking Crises: Lessons from Sub-Saharan African Countries

A large number of African countries experienced systemic banking crises in the late 1980s and early 1990s. In most cases, these crises were preceded by a significant deterioration in asset quality relating to either worsening macroeconomic environments or inadequate lending procedures and application of prudential regulations.

Subsequent bank restructuring and recapitalization entailed significant fiscal costs. Authorities injected new capital into banks and cleaned up the balance sheets through the issuance of restructuring bonds. The associated fiscal costs of these operations have been estimated at about 11 to 16 percent of GDP. In addition, many loss-making public banks were privatized (Cape Verde, Democratic Republic of the Congo, Uganda) or closed (Rwanda). The strengthening of the banking sector and stricter application of prudential regulations have been followed by a fall in the ratio of non-performing loans to total loans in crisis countries to the level in noncrisis countries (see table).

In addition, banking crises have had persistent negative effect on financial depth. While noncrisis countries have seen an increase in financial intermediation over the past decade, improvements have been only marginal in crisis countries, reflecting weak public confidence in banks and unwillingness of banks to extend credit to the private sector. As a result, banking systems in crisis countries have much lower ratios of domestic claims, quasi-money, and deposits to GDP and a much higher degree of net foreign assets relative to domestic loans than banks in noncrisis countries.

Experience therefore shows that financial sector development must be consistent with preserving the soundness of the banking system. Innovative approaches to expand financial services and increase financial intermediation must be market-driven and maintain prudent banking operations.

Sub-Saharan Africa: Bank Portfolios and Financial Depth in Crisis and Noncrisis Countries

	Reserves (share of deposits)	Foreign Assets (share of domestic loans)	Quasi-Money (share of GDP)	Deposits (share of GDP)	Claims on Government (share of GDP)	Claims on Private Sector (share of GDP)
1985–89						
Noncrisis	0.25	0.13	0.12	0.19	0.05	0.15
Crisis	0.23	0.16	0.10	0.16	0.03	0.14
1990–94						
Noncrisis	0.21	0.24	0.12	0.19	0.05	0.14
Crisis	0.22	0.30	0.10	0.16	0.02	0.13
1995–99						
Noncrisis	0.15	0.29	0.14	0.22	0.06	0.16
Crisis	0.16	0.43	0.10	0.17	0.04	0.12
2000–04						
Noncrisis	0.15	0.32	0.16	0.26	0.08	0.19
Crisis	0.18	0.49	0.10	0.18	0.05	0.11

Source: IMF, *International Financial Statistics.*
Note: Countries that had a large banking crisis in the 1990s are Benin, Cameroon, Cape Verde, Central African Republic, Côte d'Ivoire, Democratic Republic of the Congo, Guinea, Guinea-Bissau, Kenya, Mozambique, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

While there have also been some technical problems—not least related to power supply and system backup—underlying problems of financial market depth rather than narrow technical obstacles seem to be behind these systems' failure to thrive.

Operating Environment

Legal Environment and Business Practices

Legal and institutional frameworks are generally poor in SSA, and progress has lagged behind recent improvements in other LICs. The World Bank's *Doing Business* indicators show a legal framework index for SSA that is slightly lower than in comparator countries (Appendix Table A10). A credit information index, which measures the ability of financial institutions to obtain information on client creditworthiness, is also lower in SSA.[5] There is a strong correlation between private loans as a share of GDP and the indices for the extent of credit information and the legal rights of creditors (Appendix Table A11).

Weak property rights and poor enforceability of contracts also constrain financial market activity. Surveys indicate that financial institutions in SSA are reluctant to lend because of difficulties in securing collateral and seizing assets in the case of loan defaults. *Doing Business* ranks SSA businesses as the lowest in the world on the indicators necessary for efficient financial system operation: registering property, getting credit, protecting investors, and enforcing contracts (Appendix Figure A6). Enforcing a commercial contract through the courts is more difficult in SSA than anywhere else: on average, creditors must go through 35 steps, wait 15 months, and pay 43 percent of country per capita income before receiving payment (World Bank and IMF, 2005).[6] This partly accounts for bank concerns about credit guarantees.

Regulation and Supervision

Many regulatory and supervisory requirements in SSA are largely in line with international norms, but implementation of supervision is often constrained (Appendix Table A12).[7] For example, supervisors tend to be less independent. As a result, they have less power to demand "prompt corrective actions," and there is generally greater forbearance. However, forbearance itself reflects underlying pressures such as the inability of banks to meet prudential requirements given countries' economic structures or the possible costs of bank restructuring. As a result of forbearance, weak banks often remain in the system for too long. As long as banks have no effective ways to monitor the financial soundness of other banks, forbearance contributes to minimal interbank relations. Other impediments to effective supervision include often serious resource constraints in supervisory agencies, and the generally weak accounting and auditing systems in place.

Implementation of Monetary Policy

Most SSA countries outside the CFA zone and the rand Common Monetary Area (CMA) have moved from an exchange rate to a monetary anchor. In 1985, three-quarters of the countries outside the CFA and CMA zones maintained an exchange rate anchor; by 2004 only six small countries did (Appendix Table A13). South Africa is the only country in the region that has an inflation targeting regime. Successful inflation stabilization outside the CFA zone—marked by adoption of a monetary aggregate as the inflation anchor—has since the mid-1990s con-

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[5]Public credit registries and private credit bureaus have low coverage across all groups, though coverage seems to be rising more rapidly for the non-SSA low-middle-income group (The low-middle-income countries comparator group includes low- and lower-middle-income countries. The World Bank country income categories based on gross national income (GNI) per capita in 2004 classify low-income countries as those having GNI of $825 or less, and lower-middle-income countries as those having GNI of $3,255 or less).

[6]World Bank and IMF (2005) provides other examples using data from the *Doing Business* survey. For example, Nigeria has the most cumbersome regulations in the world for registering property (21 procedures, 27 percent of the property value in fees, and a registration period of 274 days). Such processes, similar in other countries in SSA, help explain why adequate collateral is often a problem for borrowers.

[7]While to date only 13 SSA countries have participated in the Financial Sector Assessment Program (FSAP), compliance with the Basel Core Principles has been in line with results in other countries.

siderably narrowed an earlier large difference in inflation between CFA and other SSA countries. With limited capital mobility and incomplete regional financial integration, the central banks in the CFA franc zone have been able to pursue monetary targets along with the exchange rate anchor (Box 4.3).

Effective reserve ratios in SSA are relatively high, and have been increasing since the mid-1990s (Figure 4.2).[8] In 2004, the average reserve ratio was 11.3 percent, with substantial variation (from a low of zero in the Central African Republic to around 50 percent in Zimbabwe). In many SSA countries, cash reserve requirements are supplemented by a liquid asset requirement that is both a monetary tool and prudential device, though it is often also motivated by the desire to lower the costs of deficit financing.[9] Reserve requirements tend to be higher than in the United States and the euro area. Increases in required reserves reflect the heightened focus in the region on stabilizing inflation and on financial system stability. They are, however, also a response to increasing liquidity owing, for example, to aid and oil revenue inflows. With many countries only partially remunerating required reserves, if they do so at all, the use of this instrument is a heavy tax on banks.

Market-based monetary instruments include sales of foreign exchange and primary auctions of treasury bills. Several central banks hold weekly auctions of treasury bills. The absence of large institutional investors means that the auctions are often undersubscribed, and central banks sterilize excess liquidity by taking up the unsold bills. Sterilization only occurs if governments do not use the receipts of the treasury bill sales. Increasing government financing needs in some countries has limited the ability

Figure 4.2. Sub-Saharan Africa: Average Effective Reserve Requirement
(Percent)
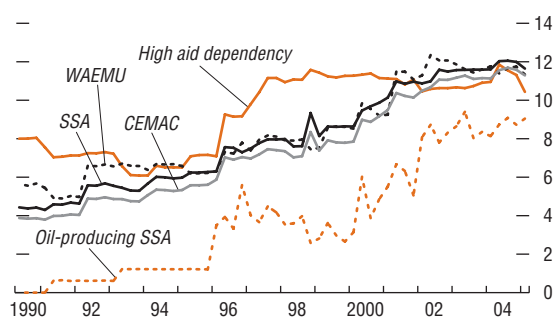
Source: IMF staff calculations.

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[8]The effective reserve ratio is calculated as the ratio of statutorily required reserves to the sum of demand and time savings and foreign currency deposits.

[9]Studies generally find them both ineffective and distortionary as a monetary policy tool (Gulde, 1995) and a hindrance to secondary market development.

**Figure 4.3. Sub-Saharan Africa:
Ratio of Excess Reserves to Total Deposits[1]**
(Percent, end-2004)
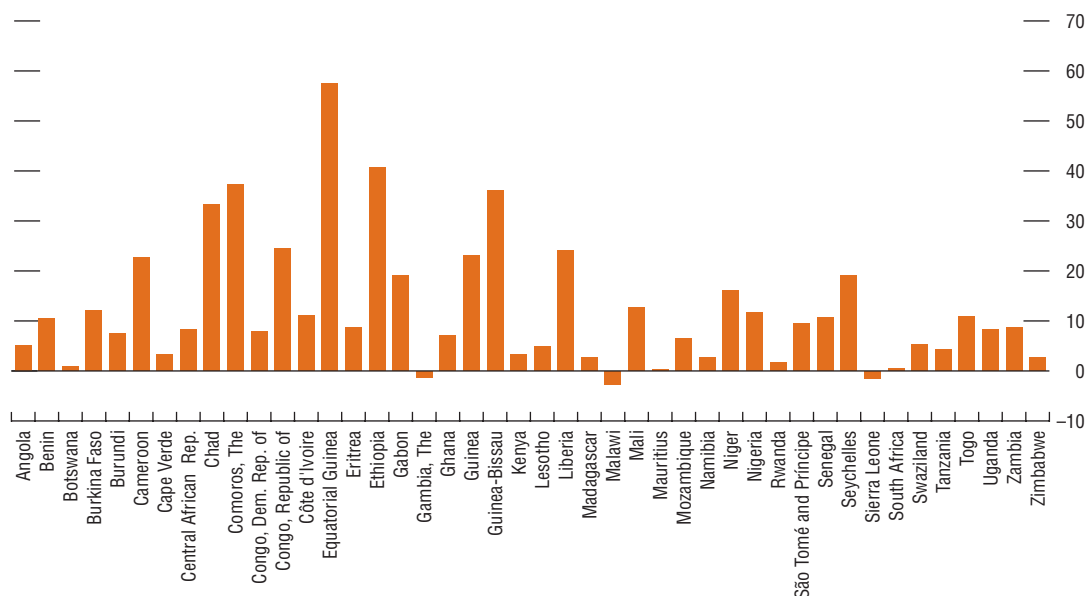
Source: IMF staff calculations.
[1]Where 2004 year-end data are not available, the most recent data point is used.

of open market operations to mop up liquidity. In certain cases, treasury bill rates are not fully market-determined because the central banks have clear cut-off rates in mind and are willing to intervene if necessary. Except in South Africa and Mauritius, secondary markets for securities largely do not exist.[10]

Market Liquidity

Despite increases in required reserves, most SSA banking systems hold significant unremunerated excess liquidity. On average, excess reserves were more than 13 percent of total deposits, though they exceeded 30 percent in Equatorial Guinea, Ethiopia, Guinea-Bissau, the Comoros, and Chad (Figure 4.3). While oil and aid flows are linked to persistent excess liquidity in some countries, fuller explanations relate to

capital controls; structural problems in financial systems (such as interest rate restrictions, perceived limited and risky lending opportunities, and asymmetric information); and underdeveloped government securities and interbank markets. Excess liquidity is not only higher but also more volatile in oil-producing countries. It is also higher than the SSA average in both the CEMAC and the WAEMU zones.

Economic Challenges

Limited Access to Financial Services

Access to financial services—savings and small-scale loans—is lower in African countries than in other LICs. Constrained by limited physical access to bank branches, high bank charges

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[10]Transitioning to more use of market-based instruments is constrained by limited interbank markets and weaknesses in central bank liquidity forecasting. Country studies conducted in the IMF's African Department on these and related monetary policy issues include: Angola: Alvesson and Torrez, 2003; The Gambia: Harjes, 2004; Nigeria: Gobat, 2003; and Tanzania: Nassar, 2003.

Box 4.3. Financial Integration in the CFA Franc Zone

WAEMU and CEMAC, the two monetary unions constituting the CFA franc zone, strive toward the creation of integrated regional financial markets. Key goals are (1) achieving larger market size, with more opportunities for risk sharing and diversification; (2) fostering a better allocation of capital among investment opportunities; and (3) potential for higher growth. Financial integration in the context of regional integration can be helped by formal efforts to integrate markets (see IADB, 2002). However, true financial integration is only given where there is significant interaction among financial markets and prices for financial services converge.

Rules-based financial market integration in the WAEMU and CEMAC zones is advanced:
- There is a common currency, and a shared central bank in each subregion, and financial institutions face similar rules thanks to common institutions, including a regional supervisor. However, some key differences—for example, in the licensing of banks, which involves national ministries of finance—persist.
- In addition, there are no capital controls within each union and no cross-border restrictions on bank lending. Finally, similar accounting and legal framework have been adopted.

Market-based integration in both WAEMU and CEMAC has been slow to emerge:
- Interest rate spreads in WAEMU are not converging, and similar data for CEMAC are inconclusive. There is little progress toward

the "law of one price" with respect to lending rates in WAEMU and/or CEMAC.
- In all CFA countries cross-border and interbank transactions appear to be limited. The only active market emerged recently in WAEMU, where there is evidence of cross-border transactions in the emerging treasury bill market.[1]
- Foreign ownership in the banking sector is high. Yet in most cases, the banks tend to be from France, indicating integration with Europe rather than with other African members of the zone. However, there is now some emerging cross-ownership of banks headquartered in the region.[2]

With a harmonized framework in place and early signs of regional activity, prospects for further financial integration among WAEMU and CEMAC are positive. Based on identified constraints, progress will, however, depend on economic development in the region more generally, a strengthening of the regional banking system, and the abolition of remaining formal and informal impediments, including differences in taxation, and the evenhanded application of the common regulatory framework.

[1]Based on available data, nonresident banks' purchases of treasury bills ranged from 11 percent (Côte d'Ivoire) to 76 percent (Mali) of total issuance in 2004–05.
[2]For example Gabonese banks own subsidiaries in Equatorial Guinea.

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and/or administered interest rates, most households cannot afford to accumulate savings in a formal institution.

Measuring Access

Data on access are scarce, given the weak statistical capacity in many LICs. Access can be defined as the ability of individuals to get financial services that are affordable, usable, and responsive to their financial needs (DFID, 2005). Efforts by the World Bank and other development agencies to compile data recognize that

access to and use of financial services can take many forms. Ideally, measures should take account of the informal as well as the formal financial sector and distinguish by geographical area and type of financial instruments. Measuring access is complex; it may be necessary to rely on household surveys (Box 4.4, page 42).

Given that branch networks are generally small and concentrated, physical access to financial services is difficult. There are about 15 branches for every 100,000 persons in 48 non-SSA low-, middle-, and high-income countries,

yet the average is only 2.5 branches per 100,000 in the 35 SSA countries for which data are available (Beck, Demirgüç-Kunt, and Peria, 2005; and IMF African Department, 2005). Average branch network density in SSA is similarly limited, with only 6 branches per 1,000 square kilometers compared with 34 for non-SSA countries in the sample.[11]

Few households have a formal relation to a financial institution. Household surveys show that, on average, in the 29 SSA countries for which data are available, only 11 percent of households had access to savings accounts, compared with 25 percent in other low- and middle-income countries and 90 percent in industrial countries (Claessens, 2005; and IMF African Department, 2005). Chad and the Central African Republic have the lowest access levels, with savings accounts held by less than 1 percent of the population; by contrast, the figure is close to half in Botswana and South Africa.

Factors Constraining Access

Access to financial services in SSA is undermined by widespread poverty and a large agricultural base (Figure 4.4). Poverty limits the demand for savings facilities; the negligible amount of savings in turn raises the cost of supplying financial services. There is a strong correlation between access (share of the population having a formal savings account) and the per capita income and poverty levels of African countries.[12] Access to savings accounts is lower in

[11]The size of a branch network may not accurately depict physical access to bank branches because banks in many countries concentrate their branches in urban areas. Data on the rural-urban distribution of bank branches are not available. The limited geographical coverage in Africa could be a result of low population density, constraining bank incentives to serve sparsely populated areas. However, average population density is at par with the world average.

[12]Non-oil per capita income was used in the case of oil-producing countries, given that a large proportion of the population does not benefit from oil revenues. Beck, Demirgüç-Kunt, and Peria (2005) find similar evidence for African and non-African countries in a sample of 91 countries. Illiteracy levels, which are closely related to per capita income, are also correlated with access in SSA.

Figure 4.4. Sub-Saharan Africa: Access to the Banking Sector

A. Poverty and Access to Formal Bank Account

Proportion of population living in poverty (percent)

B. Share of Agricultural GDP and Access to Bank Accounts in 25 Sub-Saharan African Countries

Size of agricultural GDP (percent of total GDP)

C. Size of Branch Network and Access to Bank Accounts

Size of branch network (branches per 1,000 inhabitants)
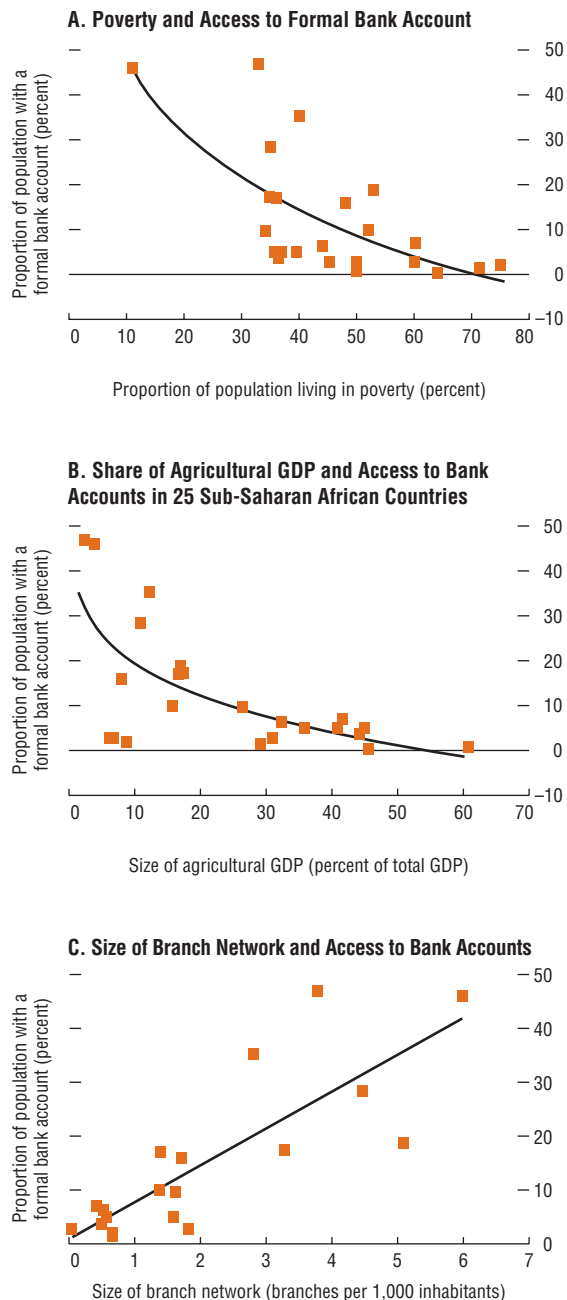
Sources: World Bank, *World Development Indicators*; Beck, Demirgüç-Kunt, and Peria (2005); and IMF staff calculations.

Figure 4.5. Sub-Saharan Africa: Average Savings in Commercial Banks
(Relative to per capita income)
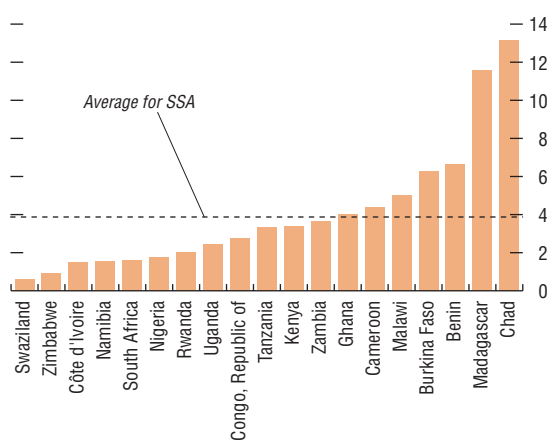
Source: IMF staff calculations.

countries with a large agricultural base. Thin branch networks are also linked to low access. Lack of roads in turn seems to be a major impediment to broader branch networks and is also directly associated with minimal lending to the agricultural sector.

High banking charges for opening and maintaining a deposit account make access to bank services more difficult for small-scale savers. In some southern African countries high minimum balances and fees are the most common reason households cite for not having a bank account (FinScope, 2003). Very high opening minimum balances also restrict access (in The Gambia, the amount is equivalent to per capita annual income). The tendency of commercial banks to serve larger and richer customers is evident from the high average savings per account in commercial banks, equivalent to four times average annual income in a sample of 20 SSA countries (Figure 4.5). Large average savings accounts relative to per capita income is particularly severe in lower-income countries (in Madagascar and Chad, for example, multiples are around 12 times per capita income).

The interest rate controls remaining in some countries adversely affect commercial bank deposit taking and lending. Despite widespread liberalization beginning in the 1990s, interest rate controls remain in effect in many African countries. Among them are administratively set minimum deposit and maximum lending rates, often aimed at ensuring affordable loans and significant return on deposits, particularly for small-scale bank customers. Interest rate floors make banks reluctant to accept further deposits, particularly where there is high bank liquidity and nonremunerated required reserves. Hence, the high real minimum deposit rates mainly benefit insiders that already have accounts (for CEMAC countries, see IMF, 2005b). Maximum lending rates prevent banks from adequately pricing lending risk, especially in weak legal environments, which further constrains credit.

Insufficient Financing of the Economy

Empirical Findings

Access to credit and the cost of financing have been identified as key obstacles facing enterprises in Africa. Over half the companies included in a World Bank survey report that access to financing and its cost are severe constraints to company growth (Appendix Figure A7).[13] A World Business Environment Survey identified high interest rates, bank collateral requirements, and inadequate credit information on customers as important obstacles. As a result, banks in SSA provide only one-sixth of the working capital and investment funds of companies. Bank financing of small firms is even lower.[14]

Sectoral Distribution of Current Lending

The sectoral distribution of bank lending relative to the sectoral distribution of economic activity reflects differences in access to financial services. While the secondary and tertiary sectors other than primary account for only two-thirds of economic activity in SSA, they receive almost 90 percent of all commercial bank loans (Figure 4.6). Moreover, in the majority of countries—essentially the poorest, predominantly agriculture-based, economies—banks lend predominantly to the domestic and external trade sectors. In a few less poor countries, such as Kenya, Lesotho, Uganda, and Senegal, that have a relatively large commercial manufacturing base, manufacturing is the main recipient of bank credit. In middle-income countries (Botswana, Gabon, Mauritius, Namibia, and South Africa), household consumer credits appear dominant, accounting for an average of 33 percent of total private sector loans.

Agriculture accounts for a significant part of economic activity and employment, but it

Figure 4.6. Sub-Saharan Africa: Distribution of Loans and GDP by Sector
(Percent)

A. Distribution of Loans

Primary
Secondary
Tertiary
Other

10.8 11.6
24.0
53.6

B. Distribution of GDP per Sector

Primary
Secondary
Tertiary

31.7
50.5
17.9
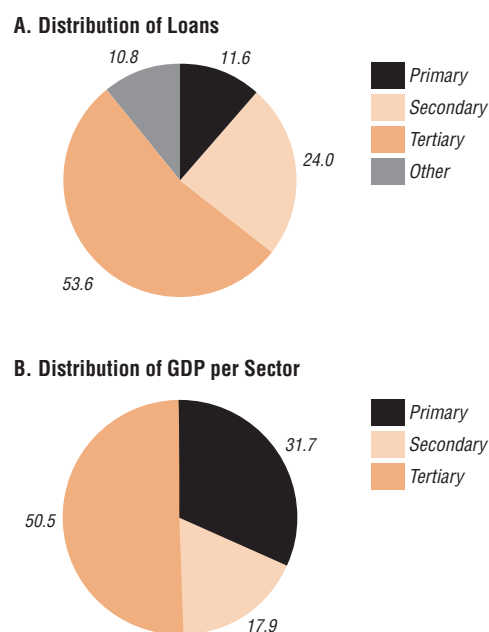
Source: IMF staff calculations.

[13]Based on World Bank Investment Climate Surveys in seven SSA countries: Eritrea, Ethiopia, Kenya, Senegal, Tanzania, Uganda, and Zambia.

[14]The World Bank Investment Climate Surveys also found that banks require high collateral—on average more than 170 percent of loan value.

Box 4.4. Expanding Financial Services in Africa: The Example of the FinMark Trust

Both countries and aid agencies are increasingly concerned with improving access to financial services for the poor. In March 2002, the United Kingdom's Department for International Development funded the FinMark Trust with the mission of "*making financial markets work for the poor.*" Unlike earlier approaches, FinMark's work is explicitly based on micro foundations; it is benchmarking access and defining at the household level areas of unmet demand. FinMark activities are currently concentrated in South Africa, Botswana, Namibia, Lesotho, and Swaziland.

Initial surveys show important country-specific differences in access, the role of the informal sector, and, for those with access, preferences for financial services (see table). From a third to half of the population in the southern Africa region have no access to financial services; access

is highest in South Africa. The typical financially excluded individual is poor, female, rural, and unemployed. The informal market is more prominent in Botswana and South Africa than in Namibia: in Botswana, 27 percent of respondents used both formal and informal markets, indicating complementarities between the two types. Among the financially included, savings and transaction products were more popular than insurance or credit products.

Information gathered from FinScope Surveys is crucial to formulation of policies to enhance access; follow-up surveys can help in assessing policy effectiveness. For example, FinScope contributed to the efforts of the South African government, industry, financial institutions, and labor and civil society institutions to promote formal adoption of a Financial Access Charter in October 2003. Under the charter banks and insurers are committed to provide certain products and services to low-income earners. New targeted instruments—such as Mzansi accounts[1]—have been created, but FinScope 2005 found that publicity has not yet reached all eligible households. However, among those using the new instruments there was a significant group of "newly banked."

Data collection is being extended to Kenya, Nigeria, Tanzania, Uganda, and Zambia. The World Bank and FinMark are engaged in a conceptual collaboration on more standardized indicators of financial access in Africa, drawing also on the Bank's experience with surveys in Latin America and India. With more countries covered, it should be possible to extract best-practice experience.

Selected Findings from FinScope Surveys
(Percent of respondents)

	Botswana	Namibia	South Africa
General characteristics			
Financially included	54	55	63
Served by banks	43	51	47
Served by other formal institutions	6	3	8
Served exclusively by informal market	5	1	8
Product usage			
Savings	51	50	...
Transactions	43	41	...
Insurance	33	25	...
Credit	21	22	...

Source: FinScope (2003).

Note: FinScope defines financially included individuals as those who use formal, informal, or interpersonal financial products (excluding transfers). Among this group, the "banked" refer to those who use at least one or more bank products. Formal providers include registered microlenders.

[1]The Mzansi accounts of South African banks offer low-cost, affordable banking for low-income earners.

receives a small and declining share of commercial bank credit (6 percent in 2002). Over the past decade, in two-thirds of 31 countries for which data are available, the share of loans to agriculture has shrunk; that share fell while the sector was growing in 9 countries, and in 7 more

it declined by more than the decrease in the sector's share in GDP. The low share of agricultural loans seems to be strongly linked to the limited size of bank branch networks, which makes it difficult for banks to service and monitor rural clients.

Main Impediments to Increased Lending

Real lending interest rates in SSA are among the highest in the world. In 2004, the average real lending rate in SSA was 13 percent, compared with an average of 8 percent in other low- and middle-income countries and 3.5 percent in OECD countries (Appendix Figure A8).[15] Given shallow financial systems, very limited equity and bond markets, and little or no foreign financing, firms in most SSA countries depend on bank financing, which makes them more vulnerable to high interest rates than firms in other developing regions. Given the excess liquidity, persistent high real interest rates reflect interest rate restrictions, collusive market behavior, and high lending risk.

Deficiencies in property rights systems for both movable property and land have impeded financial intermediation in SSA. Land titles in SSA are subject to considerable uncertainty owing to lack of documentation, overlapping systems of rights and ownership, and overstretched legal systems. In some countries (Ghana and Tanzania, for example), the problem is compounded by adaptations of "crown title," in which all land is deemed to be owned by the government (Tanzania is now working toward development of individual land titles). In addition, in many countries, large amounts of land are held by the community, presenting even more of a problem for land titles than government land. When title does exist, stamp duties and legal fees impose high transaction costs on its use as collateral. Financial sector assessments in the region have consistently found that mortgage finance is underdeveloped due in part to these constraints. There are also substantial problems with registering title in movable property, such as cars. For example, when movable property is used as collateral in Rwanda and Senegal, it often must be physically surrendered for the duration of the loan, which negates the advantages that securitized loans would otherwise offer.

Government Borrowing as an Impediment

Rather than lending to the private sector, SSA banks increasingly lend to the government or buy government debt instruments. Balance sheets of commercial banks show a sharply rising weight of claims on the government compared with claims on the private sector. The ratio of claims on the central government to total domestic claims increased in 2000–04 to over 25 percent—8 percentage points above the figure for other low-middle-income countries (Figure 4.7).[16] From 1995 to 2004, while claims on the government grew faster than claims on the private sector in SSA, the pattern is strongly reversed in other LICs (Appendix Figure A9).[17] Within SSA, CFA countries have lower government claim ratios, reflecting more recent introduction of government debt markets (in the WAEMU) and higher government deposit shares (partly due to the presence of oil exporters in CEMAC).

Government domestic debt can help bank lending to the private sectors but most of the benefits must be weighed against concerns about public debt. Modest domestic debt can support financial intermediation in three ways. (1) Low-risk government debt can help compensate for the high risks of private sector lending, allowing it to increase within prudential limits on risk-weighted capital asset ratios (Kumhof and Tanner, 2005). (2) The yield curve on domestic debt instruments provides a benchmark for private sector debt markets, including bank lending. (3) Greater reliance on domestic debt instruments rather than money financing (for a given level of domestic financing) contributes to macroeconomic stability. Some SSA countries do not yet issue treasury bills, and this limits the

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[15]Real lending rates are highest in the WAEMU and CEMAC countries (based on maximum lending rates), averaging 17.5 and 15.5 percent, compared with 11 percent and 9 percent in low-income and middle-income non-CFA countries.

[16]An increasing share of government claims in total claims can be consistent with the trend toward fiscal deficit reduction in SSA, to the extent that higher bank financing compensated for financing through arrears and the central bank, which has been declining in SSA.

[17]Reserves and foreign assets also account for more asset growth in SSA LICs than claims on the private sector.

financial sector development benefits from government debt. Domestic debt issuance, however, also absorbs domestic savings, increases interest rates, and crowds out lending to the private sector. The empirical evidence on the impact of domestic debt on private sector credit is mixed.[18]

Implementation of Monetary Policy

Excess Liquidity

Excess liquidity in the banking system limits the effectiveness of monetary policy. Where excess liquidity is high, changes in the required reserve ratio will not lead to an adjustment in liquidity in the economy. Monetary policy is likely to be particularly ineffective in banking systems where excess liquidity is involuntary, because banks have no alternative investments. Under these circumstances, excess reserves reflect a very low marginal return to lending net of intermediation costs.[19] Policy instruments that alter the monetary base may have little or no effect on lending conditions and broader monetary aggregates—and therefore little effect on economic activity. If the liquidity is held for precautionary reasons, a change in required reserves may still be partly effective.[20] Recent empirical studies support this hypothesis: in Nigeria and Uganda, money supply innovations were found to have a larger effect on inflation

Figure 4.7. Sub-Saharan Africa and Comparator Groups: Banking Sector Claims on Government
(Ratio to total claims)
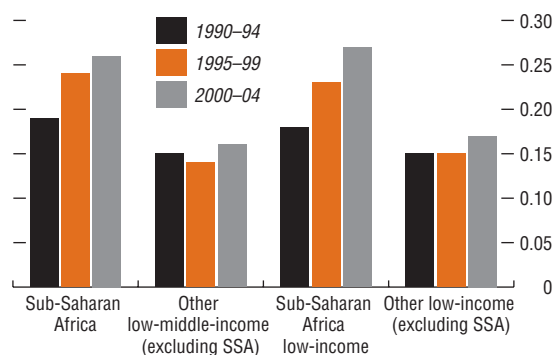
Source: IMF, *International Financial Statistics.*

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[18]Christensen (2004) and Adam and Bevan (2004) find some evidence of crowding out in African countries, while IMF (2005d) finds a mixed impact in a broader sample of LICs, and Detragiache, Gupta, and Tressel (2005) find the effects to be insignificant.

[19]Banks may be unable to lend if regulation creates an artificial floor on deposit rates and ceiling on lending rates and limits the ability of commercial banks to reduce deposits or expand lending. Banks—particularly those with monopoly power in the loan market—may also be unwilling to lend when transaction costs are high, and risk-adjusted returns low.

[20]Precautionary reasons for liquidity might be, for example, volatility in the deposit base, unavoidably high lending risks, or poorly developed interbank markets and similar structural factors.

when involuntary excess reserves were low than when they were high (Saxegaard, 2006).[21]

Shallow Interbank Markets

Shallow interbank markets interfere with the interest rate transmission mechanism. Money market operations are most effective when the liquidity operations of the central bank, which may be dealing with only a few banks, are disseminated through interbank activities to all banks. In shallow interbank markets, the central bank's liquidity impulses are not effectively transmitted: weak banks cut off from the interbank market turn directly to the central bank to meet liquidity shortfalls (IMF, 2005e). In many cases, therefore, central banks withdraw and inject liquidity at the same time.

Small or Nonexistent Markets for Government Securities

Direct financial links between the central bank and the government complicate monetary management. Where treasury bills do not exist, governments often have direct access to central bank credit to finance budget deficits. Under these circumstances it is difficult for the central bank to control the size and composition of its balance sheet. This limits its ability to effectively influence overall liquidity (IMF, 2005e).

Thin government securities markets can contribute to interest rate and inflation problems, via the fiscal channel. Because domestic debt markets in SSA are typically not closely integrated with global capital markets, domestic interest rates can deviate substantially from uncovered interest parity rates. When bond financing is used but bond markets are thin and underdeveloped and bonds have short maturities, interest rates may rise sharply, destabilizing the budget and, through higher seigniorage requirements, aggravating inflation.[22] Use of government or central bank securities for monetary control is complicated by strong links to interest rate and inflation volatility (Adam and O'Connell, 2006).

Shallow or Nonexistent Foreign Exchange Markets

In SSA, as in some other developing areas, there are structural impediments to deepening interbank foreign exchange markets. Market concentration—only a few financial institutions controlling the bulk of transactions—and foreign exchange regulations limit depth and efficiency (Canales-Kriljenko, 2003). Other restrictions are foreign exchange surrender requirements (still in place, although declining); interbank requirements that dealers trade only with customers, not among themselves; and tight prudential limits on net open foreign exchange positions.[23] Additional constraints in SSA are foreign exchange auctions that often lack transparency and are too infrequent; high red-tape and processing costs in formal markets (contributing to the remaining parallel markets in a few countries); and lack of clarity on the objectives of central bank foreign exchange intervention (such as liquidity management, smoothing short-run excess volatility, or exchange rate targeting).

Without deep and efficient foreign exchange markets in SSA, central banks face problems with foreign exchange intervention policies. While many SSA countries have moved to more flexible exchange rate regimes, most de facto

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[21]In the CEMAC region, the transmission mechanism was weak in both regimes, which was explained by the fact that involuntary excess liquidity was relatively high across the whole sample period.

[22]Interest rate liberalization was associated with sharp increases in real interest rates in many countries. For the 15 countries with outstanding debt in both periods, the median ex post real interest rate rose nearly 10 percentage points between 1985–89 and 1995–2000; in the full non-CFA sample, median interest payments on domestic debt amounted to 15 percent of fiscal revenues in 1995–2000 (see Christensen, 2004). In addition, in the late 1990s, high real interest rates and rapidly mounting interest burdens discouraged the use of bond sales for monetary control in Uganda and Tanzania (Buffie and others, 2004).

[23]While these restrictions contain risks and prevent speculative activity, they should be balanced against the need for dealers to take open positions to provide liquidity to the market (Canales-Kriljenko, 2003).

outcomes—observed patterns of intervention and short-run nominal exchange rate volatility—show less flexibility.[24] Substantial central bank intervention in the market is the norm in many countries. These interventions prevent the transmission of market signals to official rates, often bringing de jure flexible exchange rate systems into close proximity to fixed rate regimes. It has been argued that the most important constraint to free-floating exchange rate regimes for LICs may be the absence of financial markets that would allow domestic firms to hedge the risks associated with temporary exchange rate movements. (Montiel, 2002).

Rules-Based Monetary Instruments

Central bank reliance on rules-based, quasi-direct monetary policy instruments imposes costs on financial institutions. Unremunerated required reserves are an implicit tax on banks. High and rising reserve requirement ratios in many countries are steadily increasing the burden on banks. High reserve requirements can also contribute significantly to high interest rate spreads (see, e.g., for Malawi, Mlachila and Chirwa, 2002). If reserves are remunerated only partly, or not at all, this creates an incentive for borrowers and depositors to bypass the depository system and for banks to create new products

instead of reservable liabilities[25] (IMF, 1996 and 2005e).

Financial Sector Reforms

Though many SSA countries are taking measures to address some of these challenges, problems remain. Reforms are often undertaken in response to surveys—at times in the context of a country's participation in the FSAP (Financial Sector Assessment Program)—that have identified a wide range of obstacles. Financial sector reforms are also increasingly part of IMF-supported program conditionality.[26] These reforms follow up on an earlier generation of financial sector liberalization efforts that remained limited largely due to incomplete coverage, inappropriate sequencing, and initiation in the context of macroeconomic instability.[27] Yet, the renewed reform efforts are still often incomplete.

Microfinance

Over the past few years many SSA governments and NGOs have promoted microfinance institutions (MFIs) as a response to the limited access of households.[28] More than half the MFIs in the Consultative Group to Assist the Poor (CGAP) database were created after 1998,[29] and the num-

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[24]For most SSA countries, calculations of the Reinhart and Rogoff (2004) measure of ex post exchange rate flexibility indicates substantial intervention even for countries notionally committed to a floating exchange rate (Masson and Pattillo, 2005).

[25]IMF (2005e) also points out that, to encourage banks to trade with each other in the interbank market, remuneration rates on reserves deposited with the central bank should be lower than the cost of borrowing from the central bank at the discount window.

[26]In the 27 SSA countries for which IMF-supported programs initiated in the early and mid-1990s could be compared with those in the late 1990s and early 2000s, financial sector conditionality has sharply increased. The total number of financial sector conditions increased by 60 percent (from 88 to 140, an average of 5.2 conditions per program). The proportion of conditions for bank privatization and restructuring increased from 22 to 29 percent, while for bank supervision and regulation it was down from 42 percent to 20 percent. Conditionality for central bank reforms and the exchange rate was almost unchanged (IMF, MONA database).

[27]See Mehran and others (1998) for a discussion of financial sector reforms in SSA up to the mid-1990s.

[28]The sector is comprised of nongovernmental organizations (NGOs), NBFIs, credit unions and cooperatives, rural banks, savings and postal financial institutions, and in some cases even commercial banks.

[29]This section is mainly based on a database for reporting MFIs in developing countries created in 1998 by the CGAP, which has information for 167 MFIs in 37 SSA countries. While the database coverage is generally good, it is not exhaustive. In some cases it underestimates the true size of the MFI sector. The database distinguishes between three different types of MFIs: (1) regulated (banks, regulated NBFIs, regulated NGOs); (2) cooperative (financial cooperatives and credit unions); and (3) unregulated (other NGOs, NBFIs, MFI projects, and others). However, detailed soundness indicators for these institutions were available for only 27 SSA countries. We supplement the database information with credit union data for 15 SSA countries from the World Council of Credit Unions and postal savings banks data from the World Savings Banks Institute.

ber of members almost doubled from 2001 to 2003.[30] However, penetration of the sector is still modest. On average only 2.5 percent of the population have an account with an MFI; in most countries, this is fewer than those reached by commercial banks (Figure 4.8). Microfinance sector assets account on average for 1.3 percent of GDP and 6 percent of commercial bank assets (Figure 4.9), though these shares are substantially larger in some countries.

Despite its small size, microfinance seems to be effective in targeting the poor. The microfinance system is significantly larger in those poorer countries where the formal financial system is relatively small.[31] There is also a significant inverse relationship between the number of accounts in MFIs and the number in commercial banks, suggesting that microfinance to some extent compensates for the limited outreach of the formal financial system. The average outstanding MFI loan per borrower is $307, equivalent to three-quarters of average per capita income, and the average savings balance is $141, less than half of average per capita income.[32] In contrast, the average deposit in commercial banks is four times average per capita income.

However, the costs of borrowing from MFIs are relatively high, partly reflecting their high operating costs. The average real lending rate for MFIs is 43 percent and the median is 29 percent, with a large variance across countries. These rates are generally higher than those of commercial banks (12 percent on average in 2003). The high borrowing costs are related to operating costs that are higher than those for MFIs in other regions, as well as high fixed costs created by weak infrastructure, low rural popula-

Figure 4.8. Sub-Saharan Africa: Access to Financial Services of Microfinance Institutions and Commercial Banks
(Percent of total population)
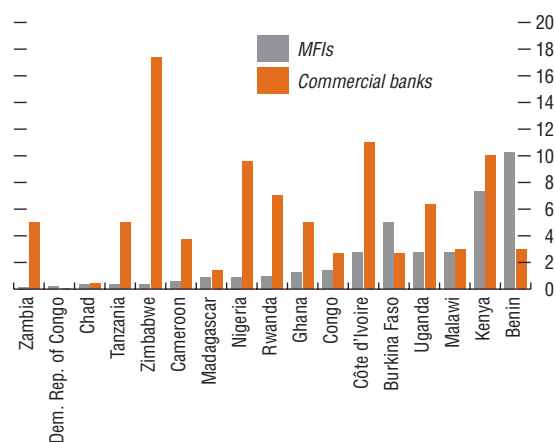
Sources: Consultative Group to Assist the Poor (CGAP) database; Claessens (2005); and IMF staff calculations.

[30]For the 86 SSA MFIs that provided information continuously for the period 2001–03.

[31]This relationship only holds when credit unions are excluded from the sample, which is sensible; these institutions are often linked to larger enterprises.

[32]On average, these loans are somewhat bigger than in the Middle East and North Africa, East Asia, and South Asia, but significantly smaller than those offered in Eastern Europe and Latin America and the Caribbean (Lafourcade and others, 2005).
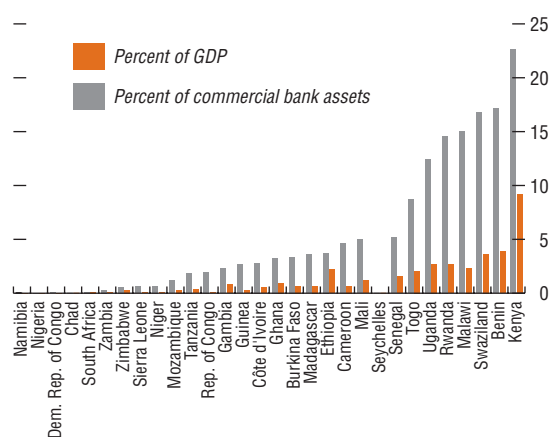
tion density, and high labor costs (Lafourcade and others, 2005). Given that MFIs mainly lend to small and medium enterprise clients, the rates may also reflect a risk premium.

SSA MFIs, on average, maintain a relatively high portfolio quality, but most are not profitable. While there are wide differences between countries, overdue loans amounted on average to 7 percent of the total loan portfolio of MFIs at end-2003, only half the ratio for commercial banks.[33] Portfolio quality measures are also significantly better than those for MFIs in other developing regions. Internally generated revenues, on average, cover total operating costs (financing and operating costs and loan loss provisions), but profitability is low. However, given significant fixed costs, in two-thirds of the countries the return on assets is on average negative. Operational self-sufficiency and profitability are lowest in NGO-driven MFIs and highest in credit unions and licensed MFIs. SSA MFIs tend to be less profitable than those in other developing regions.

Evidence suggests that formal and informal financial institutions can complement each other. Though microfinance cannot achieve the scale of the formal financial sector, it is serving groups the formal sector has difficulty reaching (Honohan, 2004). Commercial banks in many countries are increasingly entering microfinance markets (CGAP, 2004), and a few large MFIs are transitioning to become banks. The expansion of MFIs will depend on continued subsidization for some types of institutions and more market-oriented growth for others. Many donor-financed and NGO-based MFIs, which target the poorest, are not able to cover their costs and will continue to rely on subsidies. MFIs that are operationally self-sufficient, in contrast, can expand if they are prudent in their operations and diversify their portfolios.

**Figure 4.9. Sub-Saharan Africa:
Size of the Informal Financial Sector**
(Percent)

Sources: CGAP database; and IMF staff calculations.

[33]This is explained in part by the fact that there are many new MFIs with recently extended loans. The share of nonperforming loans tends to increase over the life of a loan.

Enterprise Financing

SSA governments in the past unsuccessfully used state and development banks to channel credit to the private sector. Given the financial losses of these institutions—with most of the banking crises caused in part by losses from development banks—during the 1990s most countries undertook to privatize these institutions and committed to refrain from direct efforts to promote private financing. Instead, most governments see improvement in the operating framework and macroeconomic stability as the best way to enhance private sector credit.

As private sector credit stagnates, however, some countries are contemplating a more activist approach—which could be fraught with the same types of risk they have experienced in the past. Some countries, such as Gabon, are once again using development banks to channel credit to priority sectors, so far with mixed or negative results. Others, such as WAEMU member countries, are forming state-owned specialized banks to give certain sectors access to desired types of finance. In many countries export credit agencies are subsidizing access. There is as yet no systematic review of these efforts, but it already appears that past problems are likely to re-emerge.

The stock markets that were opened in a number of countries to support access to finance remain small. Up to 1989, there were just 5 stock markets in SSA; now there are 15. Most recently, stock markets have been established in Ghana, Malawi, Swaziland, Uganda, and Zambia. There is some empirical evidence that stock markets have helped listed companies to acquire finance. However, since few companies are listed and there is limited share turnover, stock markets remain largely a sideshow in SSA. High costs and a lack of supporting infrastructure are also a concern (Box 4.5).

Nonbank Financial Institutions

NBFIs in SSA are a diverse group with the potential to increase the products and services available. They include insurance companies, pension funds, mortgage finance, consumer credit companies, finance and leasing companies, and postal savings banks. NBFIs provide products and services that banks either cannot or are not allowed to offer and could deliver other savings, investment, and risk management tools. Some NBFIs could promote lending products that are better suited to the legal and institutional setting in SSA countries than traditional banks. For example, where collateral is inadequate, leasing may provide a lower-risk alternative for the lender than bank financing. The development of this sector could also increase competition among banks which could improve access to finance. As with state banks and other state-sponsored institutions, however, it is questionable if—beyond providing a legal and operating framework—there is a role for governments to sponsor such institutions.

Improvements to the Operating Environment

Many countries are trying, with varying success, to improve the financial sector operating environment. Legal changes, such as the modernization of central bank and banking laws, allow for more market-based interactions. Changes in business law, including bankruptcy laws, are also crucial for the operation of financial markets. In 1993, in an effort to modernize business law, a group of 16 African countries implemented the Organization for the Harmonization of Business Law in Africa (OHADA), which has already standardized a wide range of commercial laws.[34] There have also been broader efforts to deregulate financial sectors, though restrictions remain in many

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[34]These include general commercial law, corporate law and rules for joint ventures, laws on secured transactions (guarantees and collateral), debt enforcement law, bankruptcy law, arbitration law, accounting law, and contract laws for the carriage of goods by road. Harmonization is also underway for labor and consumer sales law.

Box 4.5. Stock Markets in Sub-Saharan Africa: Critical Issues and Challenges

Fifteen SSA countries have stock markets, most of them established over the past decade (table). The value and role of stock markets in financing industry has been debated in advanced as well as developing countries. While advocates point to the need for long-term finance, others fear that generally weak regulation will hinder market efficiency and the value of price signals in allocating investment resources.

Stock markets in Africa remain immature. Except in South Africa and Zimbabwe, average market capitalization is about 27 percent of GDP; it is as low as 1.4 percent in Uganda. This contrasts with emerging markets like Malaysia, which has a capitalization ratio of about 161 percent. Market liquidity is also very low: turnover ratios are as little as 0.02 percent in Swaziland compared with about 29 percent in Mexico. Low liquidity implies greater difficulty in supporting a local market with its own trading system, market analysis, and brokers, because of the low business volume. In most SSA stock markets, informational and disclosure deficiencies prevent trading in most listed stocks. Further, supervision by regulatory authorities is often inadequate.

Stock markets in SSA have contributed to financing for listed companies but there is no evidence yet of broader economic benefits. Corporate financing patterns in certain SSA countries suggest that stock markets are an important source of finance (Yartey, 2005a). In Ghana, the stock market financed about 28 percent of total asset growth of listed companies between 1995–2002, 16 percent in South Africa between 1996–2000, and 8 percent in Zimbabwe between 1995–99. In all three countries, the stock markets were for these companies the single most important source of long-term finance. However, it remains unclear whether these economies have benefited through, for example, greater savings and investment or increased investment productivity. Finally, to date all SSA stock markets remain dependent on regional government subsidies for their operation.

The literature suggests that the following preconditions are necessary if countries are to benefit from stock market development, some of which are lacking in some SSA countries:

- *Sound macroeconomic environments and sufficiently high income levels.* Income levels, domestic sav-

Sub-Saharan Africa: Indicators of Stock Market Development, 2004

	Number of Listed Companies	Market Capitalization (percent of GDP)	Value Traded (percent of GDP)	Turnover (percent)
Botswana	18	29.4	0.6	2.1
Côte d'Ivoire	39	13.6	0.3	2.5
Ghana	29	30.7	0.8	3.2
Kenya	47	24.9	2.1	8.0
Malawi	8	9.0	1.0	11.1
Mauritius	41	39.3	1.6	4.4
Namibia	13	8.1	0.3	4.7
Nigeria	207	20.1	2.3	13.9
South Africa	403	214.1	76.5	45.0
Swaziland	6	9.3	0.0	0.0
Tanzania	6	6.2	0.2	2.5
Uganda	5	1.4	0.0	0.2
Zambia	11	8.0	0.1	1.1
Zimbabwe	79	87.9	14.0	3.9
Egypt	792	51.3	7.5	17.1
Malaysia	962	161.3	50.8	33.4
Mexico	152	25.4	6.3	29.1
Thailand	465	70.6	66.7	93.8

Source: World Bank, *World Development Indicators.*

ings, and investment are important determinants of stock market development in emerging markets (Garcia and Liu, 1999).

- *Appropriate sequencing.* Stock markets should follow after financial sectors have reached a certain depth. Yartey (2005b) finds that a percentage point increase in financial sector development increases stock market development in SSA by 0.6 percentage point, controlling for macroeconomic stability, economic development, and the quality of legal and political institutions.
- *Transparent and accountable institutions.* Good-quality institutions, law and order, democratic accountability, and limited corruption are also important determinants of stock market development. These factors reduce political

risk and enhance the viability of external finance.

SSA stock markets now face the challenge of regionalization and need better technical and institutional development. While analysts have argued for regionalization in SSA as a way to overcome small market size, there are important preconditions for successful regional approaches, such as legal harmonization (bankruptcy and accounting laws) and a liberalized trade regime. Robust electronic trading systems and central depository systems will also be important. Other financial sector reforms—steps to improve the legal and accounting framework, private sector credit evaluation capabilities, and public sector regulatory oversight—would also be beneficial.

countries on interest rates, foreign bank entry, and capital flows.[35]

Surveys indicate that the operating environment is a major cause for concern. In spite of improvements in many laws and rules, FSAP surveys support findings from the *Doing Business* indicators that implementation of rules and regulations is uneven within countries and regions, and that there are persistent transparency and governance issues. Distortions continue to arise from official or officially sanctioned actions—such as limited access to foreign exchange, interference with interest rates, and other impediments to the operation of markets.

Elements of a Forward-Looking Reform Strategy

Financial sectors need to be a reform priority for SSA. At present, they neither support economic development nor improve the quality of services available to the poor. Against the back-

ground of increasing empirical and survey evidence linking finance and growth, and the identification in many SSA countries of access limits as important obstacles to the expansion of firms, financial sector reform is one of the keys to progress on growth in SSA.

While research on how best to address financial sector challenges is still under review, reforms should be directed to key obstacles. By now, there is considerable evidence on common bottlenecks as well as lessons learned from earlier reform efforts. Renewed reforms should at first focus on obstacles identified in numerous studies and seek to improve implementation of reforms based on lessons from the past. While important issues will apply to all countries, financial sector reforms should acknowledge country-specific factors, such as their level of development.

The following key priorities are proposed:

- *Eliminate distortions.* While banks on average are profitable, more dynamic development of

[35]Capital account restrictions in SSA are complex. An average of indicators for controls on 13 types of capital transactions (where a value of 1 indicated a control) was equal to 0.8 for SSA in 1995–99 and 0.75 in 2000–04, compared with 0.71 and 0.7 for low-middle-income countries outside SSA for the same periods. The global averages for these periods are 0.66 and 0.63 (data from IMF, 2005a).

the banking sector is hampered by manifold restrictions and supervisory forbearance. Remaining important restrictions are interest rate controls and the excessive use of costly regulatory monetary instruments, such as high reserve requirements. Eliminating or reducing such restrictions could spur development of the banking sector. Similarly, an end to supervisory forbearance would allow better pricing of risk and facilitate interbank relations.

- *Increase market size.* Empirical evidence finds high costs for financial market development from small market size. At least 14 African countries belong to monetary unions and should be working to promote financial integration so that members will benefit more fully from a larger market. Other countries would benefit from a harmonized approach to regulation in the context of low restrictions to market entry, to allow financial firms to benefit from economies of scale and scope.

- *Promote a prudential framework in line with economic structures.* Prudential frameworks have been developed for more diversified economies. In SSA, some prudential rules, such as the ones on risk diversification, are routinely violated, and others, such as minimum capital levels, and zero risk weights for government debt, may not be appropriate for the different levels of risk. In the context of efforts to review the appropriateness of the prudential framework, and with many SSA

countries considering Basel II, this may be an opportune time to revise the prudential framework for LICs more broadly. SSA countries should be active in international forums discussing such issues.

- *Use alternative instruments to overcome bottlenecks.* Property rights issues are likely to take some time to address. Meanwhile, countries could benefit from using alternative instruments (e.g., leasing) or alternatives to collateralization (e.g., group guarantees, reversible equity stakes) that have been adopted in other regions facing similar obstacles.

- *Avoid specialized state-owned institutions.* Official efforts to promote access have so far not been successful. Any new efforts to widen the range of institutions and instruments on offer should be guided by the need to maximize the role of markets, minimize costs, and avoid distortions from interventions. Such interventions (state-owned development banks, subsidized financial instruments) should be time-limited, and the government should have a clear exit strategy.

- *Apply the legal and regulatory framework evenhandedly.* Improved governance of the economy must be supported by evenhanded application of the legal framework, which is more likely if there are commercial courts and perhaps specialized judges. Differences in commercial law and practices among those countries that already have harmonized their laws should be reviewed regularly and if necessary amended.

FISCAL DECENTRALIZATION

Fiscal decentralization is often seen as an effective way to enhance the efficiency of public spending and to resolve regional and ethnic divisions.[1] In some SSA countries, subnational governments are now responsible for over 70 percent of poverty-reducing spending. Fiscal decentralization has thus been increasingly used as an instrument for achieving the MDGs, in the recognition that public spending is unlikely to improve social outcomes if it does not translate into actual services to citizens (World Bank, 2003b; Ahmad and others, 2005; Gupta, Powell, and Yang, 2006). As aid flows are scaled up, even more resources will flow through subnational governments. This prospect poses challenges in terms of subnational accountability, revenue generation, and macroeconomic stability. Addressing these challenges is important for effective aid utilization (Chapter III).

This chapter describes the experience with fiscal decentralization of several countries in SSA over the past decade and—to the extent that data are available—assesses how decentralization has affected economic and social outcomes. It then identifies challenges that have arisen in implementing fiscal decentralization and suggests possible responses. The analysis draws primarily on the experience of Ethiopia, Ghana, Nigeria, South Africa, Tanzania, and Uganda, which represent a mix of political structures and stages of decentralization: Ethiopia, Nigeria, and South Africa are decentralized within federal or quasifederal systems, and Tanzania and Uganda within

unitary systems. Ghana, also a unitary system, has pursued a hybrid approach: modest decentralization to local governments with deconcentration of central government functions.[2]

Objectives

Fiscal decentralization in SSA has a variety of objectives, including increased regional autonomy, enhanced citizen participation in the political process, and reduced poverty. Regional autonomy, an important element in postconflict settlements to deal with regional and ethnic divisions, provided the impetus for ambitious decentralization in Uganda and Ethiopia. Increased civil participation, improved service delivery, and enhanced poverty reduction motivated decentralization in Ghana and Tanzania and were important elements in second-wave decentralization efforts in Uganda and Ethiopia. Decentralization in South Africa reflects a complex set of influences, including the need to address deprivation in previously segregated areas and a history of strong provincial governments. Though Nigeria has been decentralized since its inception, the degree of subnational autonomy has varied over time and with political developments; there have also been recurring disputes over the distribution of oil wealth.

Fiscal decentralization in SSA is limited compared with many other parts of the world (Figure 5.1).[3] While there are many dimensions to the shift of responsibility away from the center,

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[1]The authors of this chapter are Sanjeev Gupta, Yongzheng Yang, and Kevin Carey.

[2]In a *unitary system*, the central administration retains all key domestic and external government functions and powers. In a *federal system*, many domestic functions and powers are held by regional entities, such as provinces or states. Strong federal systems operate on the presumption that any power not explicitly given to the central government belongs to the regional entities. In South Africa's quasifederal system, the provinces implement many national policies, but the associated powers generally remain at the center. *Deconcentration* occurs when governments retain powers and functions but interact with citizens indirectly through regional or local institutions that the citizens control.

[3]This conclusion is supported by Ndegwa (2002), who compiled an index comprising political, administrative, and fiscal dimensions of decentralization.

this chapter focuses on just two: public spending and taxation. Most SSA countries began to decentralize only recently; the countries that have gone the farthest are Ethiopia, Nigeria, and South Africa, followed by Tanzania and Uganda. In 1985, the level of decentralization in SSA was almost as low as in the Middle East and North Africa, but it has increased significantly since then (Arzaghi and Henderson, 2005).[4]

Features

In five of the six countries studied, rapid decentralization has resulted in subnational spending shares of at least 20 percent; in South Africa and Nigeria, the shares are over 50 percent (Figure 5.2). The exception is Ghana, where decentralization has proceeded more slowly. The exact functional assignments of subnational governments vary by country (Appendix Table A14), but subnational governments have generally been given responsibility for primary education and some primary health care functions.

Subnational governments often account for high shares of poverty-reducing spending—over 70 percent in five of the six countries. Ghana is again the exception because central government ministries formally retain social sector functions.

Responsibilities are frequently split within a broad expenditure assignment. Central governments, whether unitary or federal, often retain payroll responsibility but delegate hiring decisions to subnational governments. In Nigeria, for example, primary health employment was split between state and local governments after local governments failed to meet payroll obligations when they were given the responsibility directly (Khemani, 2006). Similarly, subnational governments are typically responsible for maintaining local roads while the center manages

Figure 5.1. Fiscal Decentralization by Region, 1985 and 1995[1]
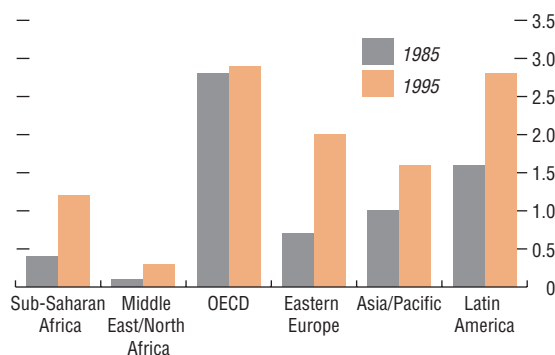
Source: IMF staff calculations from data in Arzaghi and Henderson (2005).
[1]The number of observations for each region is 7, 5, 11, 6, 12, and 8, respectively. The index ranges between 0 and 4 and increases as decentralization increases.

[4]In general, countries where 40 to 50 percent of expenditures and revenues are at the local level are viewed as having high fiscal decentralization. From this perspective, Argentina, Brazil, Canada, China, India, and the United States are relatively highly decentralized.

capital budgets. Decentralization is generally more pronounced for recurrent than for capital expenditures.

Subnational governments have few tax instruments at their disposal. Taxes typically generate less than 10 percent of their revenue. The most common base for local taxes is property (Appendix Table A15), but in most subnational jurisdictions outside urban and semiurban areas in SSA, this base is limited by insufficiently defined property rights and inadequate registration and valuation systems. In low-income countries, these deficiencies are often exacerbated by residents' resistance to paying property taxes (Brosio, 1998). Moreover, even when the taxing function is assigned to local governments, as in Nigeria, they may not be given discretion to set bases and rates. In Ethiopia, local taxes and fees are subject to regional guidelines. While local service delivery could in principle be covered by local fees, many districts are too poor to make this a significant source of financing (Brosio, 1998). Nonetheless, a few large city governments, notably in South Africa, have had success with fee-for-service financing. Not only are subnational governments in SSA heavily dependent on transfers from the center (Figure 5.3), but the dependence is likely to continue for the foreseeable future. Furthermore, because one objective of decentralization is usually interregional equity, transfers will continue to be necessary to address regional disparities.

Subnational governments have little discretion over their expenditures. Most transfers from the central government are earmarked for specific purposes, although this is less likely in federal systems, either because of reliance on revenue sharing, as in Nigeria, or a greater role for block grants, as in Ethiopia.[5] Sectoral spending is usually decided at the center, although Poverty Reduction Strategy Papers (PRSPs) increasingly emphasize local involvement in setting expenditure priorities. Sectoral funds are often

[5]Even when grants are unrestricted, their link to employment can limit actual autonomy in subnational spending.

Figure 5.2. Decentralization of Spending and Revenue Generation in Six Countries[1]
(Percent of consolidated total)
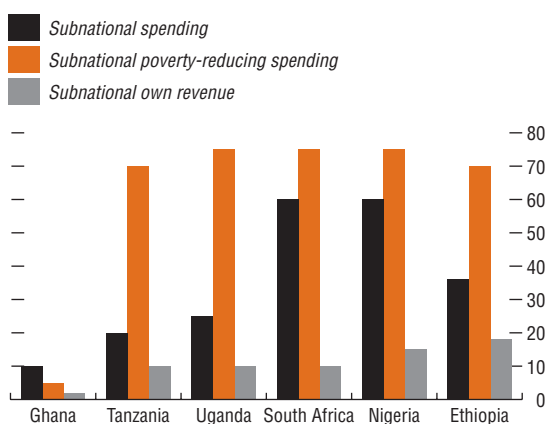
■ *Subnational spending*
■ *Subnational poverty-reducing spending*
■ *Subnational own revenue*

Sources: Ethiopia (Ahmad and Brosio, 2005); Tanzania (IMF, 2005f); Ghana (Ahmad and Brosio, 2005; and Inanga and Osei-Wusu, 2004); Uganda (IMF, 2006); South Africa (South Africa, 2005); and Nigeria (Ahmad and Brosio, 2005; and Alm and Boex, 2002).

[1]Poverty-reducing spending as defined by country, or by social sector spending in the cases of South Africa and Nigeria. Data refer to years as follows: 2003–04 (Ethiopia), 2003 (Tanzania), 2002 (Ghana), 2001 (Uganda), 2003–04 (South Africa), and 2002–04 (Nigeria).
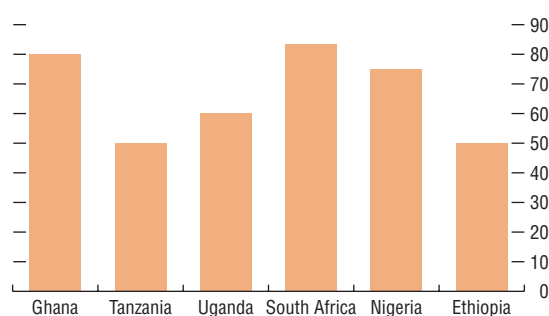
preassigned. For instance, in Tanzania, about 70 percent of transfers are assigned to employee remuneration, which is centrally managed, and to drug procurement, which is centrally managed by the Ministry of Health (IMF, 2005f). Textbooks are another common preassignment.

Impact of Fiscal Decentralization

It is difficult to assess how decentralization has affected economic or social outcomes. However, the impact may be evaluated against *intermediate* objectives of fiscal decentralization, such as raising domestic revenue, improving services, addressing regional disparities, and maintaining macroeconomic stability.

Relatively more decentralized countries have made more progress in raising their domestic revenues than other SSA countries (Figure 5.4), though the improvements are not necessarily related to fiscal decentralization. In Nigeria, for example, higher oil prices have been an important factor, and in Ethiopia agriculture rebounded from a severe drought. Several countries reformed their tax administration by such means as creating large-taxpayer units during the period covered by Figure 5.4. In any case, following initial increases in subnational revenue after decentralization, revenue buoyancy is low. In fact, Tanzania has abolished what had been the main source of local government revenue, the development levy. Uganda suspended its graduated personal tax—also the main source of local government revenue—for 10 years.

In some countries, low buoyancy has caused subnational taxes to proliferate. The tax instruments used, ranging from business license fees to levies on internal trade, tend to be unproductive and nontransparent "nuisance taxes" (Brosio, 1998). They have not been conducive to improving governance or the investment climate. In Tanzania, for example, a local council was reported to have more than 60 taxes and fees, including a tax on the production of cashew nuts, an export crop (Fjeldstad and Semboja, 1999). Similarly, local authorities in Uganda collect "market dues," an assortment of

Figure 5.3. Central Government Financing of Subnational Expenditure[1]
(Percent of subnational expenditure)

Sources: Ethiopia (Ahmad and Brosio, 2005), Tanzania (IMF, 2005f), Ghana (Ahmad and Brosio, 2005; and Inanga and Osei-Wusu, 2004), Uganda (IMF, 2006), South Africa (South Africa, 2005), and Nigeria (Ahmad and Brosio, 2005; and Alm and Boex, 2002).

[1]Data refer to years as follows: 2003–04 (Ethiopia), 2003 (Tanzania), 2002 (Ghana), 2001 (Uganda), 2003–04 (South Africa), and 2002–04 (Nigeria).

levies and transaction fees. The burden may fall more heavily on small than on large traders (Uganda, 2004).

Heavy reliance on transfers from the center may blunt subnational incentives to raise revenue and weaken accountability to constituents.[6] Where rules for transfers and revenue sharing are not transparent and are subject to change, subnational governments tend to concentrate disproportionately on securing a larger slice of national revenue—similar to rent seeking. Revenue sharing is often politically contentious in resource-rich countries like Nigeria, where the resource-rich regions try to keep rents to themselves (World Bank, 2003b). The frequent changes in transfer formulas in Ethiopia and Uganda illustrate how hard it is to establish a predictable transfer mechanism to avoid unproductive competition for resources.

Fiscal decentralization has not necessarily made subnational governments more responsive to local concerns. In Ghana, for example, the local authorities failed to address the breakdown of infrastructure even though citizens ranked it at the top of their concerns (Crook and Manor, 1998). In Nigeria, state budgets are largely incremental from one year to the next, with little evaluation of the changes needed to align them with development objectives (World Bank, 2003b). In Uganda, local residents were reportedly dissatisfied with the types and levels of services that local councils were providing (Smoke, 2000). Complaints that subnational governments are not responsive to citizens are also common in

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[6]There is evidence that large transfers from the center may hinder improvements in local governance. De Mello (2004) finds that deeper vertical imbalances lower confidence in governments. He hypothesizes that this is related to a lack of linkage between benefits and costs of services in vertically imbalanced systems. Using U.S. data, Fisman and Gatti (2002b) find evidence that intragovernment transfers are more prone to abuse than locally mobilized revenue sources. However, de Mello and Barenstein (2002) do not find any link between governance improvements and the extent of subnational tax revenue generation. In fact, subnational revenue mobilization tends to worsen governance when decentralization is already high.

Figure 5.4. Fiscal Decentralization and Domestic Revenue[1]
(Percent of GDP)

Source: IMF, African Department database.
[1]Five-year average is used for both before and after decentralization periods. The "Other SSA" average is based on data for 26 countries. The threshold year for decentralization is assumed to be 1993, the median year for the six countries identified in the figure. The results do not change when different threshold years are chosen.

Figure 5.5. Fiscal Decentralization and Social Spending[1]
(Percent of GDP)
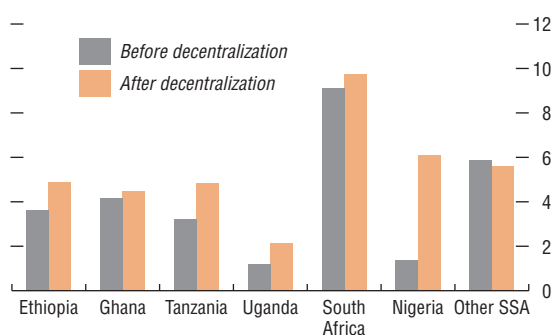
Source: IMF, African Department database.
[1]Five-year average is used for both before and after decentralization periods. The "Other SSA" average is based on data for 26 countries. The threshold year for decentralization is assumed to be 1993, the median year for the six countries identified in the figure. The results do not change when different threshold years are chosen.

other SSA countries, such as Côte d'Ivoire, Kenya, Nigeria, Tanzania, and Zimbabwe (Crook, 2003).

Nevertheless, spending on health care, education, and basic infrastructure has increased in more decentralized countries (Figure 5.5), partly because subnational spending is more oriented to social sectors: In South Africa, social services constitute 82 percent of total provincial expenditures, compared with 60 percent for the central government (Yemek, 2005); in Uganda, 70 percent of local expenditure is devoted to poverty reduction. The increases in social spending are also attributable to rising aid inflows and to donor preference that aid be directed to basic social services.

The impact of increased social spending on service outcomes is mixed. In Uganda, while the fight against HIV/AIDS is widely considered successful, despite a substantial increase in health care spending in recent years, improvements in infant and child mortality have been uneven across regions, as has access to safe water (Ahmad and Brosio, 2005; Appendix Table A16).[7] On the other hand, education has improved. In Ethiopia, while net enrollment in primary schools has increased, especially in rural areas, access to health care has not (Appendix Table A17).[8] It is not clear how these outcomes are related to fiscal decentralization, but some countries have strengthened decentralized service delivery, notably in HIV/AIDS-related areas (Box 5.1).

Inefficient use of local resources is a major obstacle to improving social outcomes. In Uganda, a Public Expenditure Tracking Survey

[7]Uganda's success is often attributed to the **ABC** (**A**bstain, **B**e faithful, **C**ondoms) campaign; it is not linked to fiscal decentralization.

[8]Even these outcomes can mask the true impact of service delivery. For example, net school enrolment may have increased on paper only, without pupils actually attending or completing school. A low pupil-teacher ratio does not reflect the quality of teaching because skills of teachers may decline when there is a large number of new recruits. Similarly, more frequent consultations at local medical clinics may not be an accurate indicator of health care.

Box 5.1. Decentralized Delivery of HIV/AIDS-Related Services

A decentralized system can be effective in targeting HIV/AIDS-related services. Local governments can often reach more of the poor by using local information networks, such as schools, clinics, libraries, and notice boards (World Bank, 2003b). Certain types of services, such as support for orphans, are more suited for delivery at the local level, in close cooperation with the community. Furthermore, local governments are often efficient in channeling local feedback to higher levels of government, as shown by the Msunduzi Municipal AIDS Strategy in South Africa (World Bank, 2003a).

Governments and donors have increasingly relied on decentralized systems to deliver HIV/AIDS-related services. The Swaziland government has increased its funding to local communities to provide support to HIV/AIDS-affected households. The World Bank, through its Multi-Country HIV/AIDS Program, is funding the District Response Initiative in Ghana, which is delegating HIV/AIDS-related services to 27 districts.

Growing reliance on decentralized service delivery does not diminish the need for national coordination and for ensuring subnational accountability. Coordination mechanisms need to include all major players in the service delivery chain: central government agencies, subnational governments, frontline service providers, recipients, donors, and advocacy groups. More interaction among key players increases transparency.

found that in 1995 only 20 percent of funding for nonwage education expenditures actually reached the schools (Reinnika, 2001). In some countries, inefficient use of public resources is also reflected in the rapid expansion of public administration. In Uganda, for example, the number of districts has increased every year, and the country has recently introduced an additional upper layer of local authority, owing to political pressures. Expanding public administration has led to rising wage bills for subnational administrations. In Ethiopia, between 1993/94 and 2001/02 the spending of regions on administration and general services, including salaries and wages, increased from 21.5 percent of recurrent expenditure to 31.3 percent. In Nigeria, personnel accounted for a growing share of state expenditures, reaching 34 percent in 2000. At the same time, spending on health amounted only to $0.3 per capita and on education $0.5 per capita (World Bank, 2003b).

Accountability for social and economic outcomes is weak. The promise that decentraliza-tion can deliver services better rests on the idea that it will help strengthen governance.[9] Although it has increased participation in political processes, there is little evidence that it has led to significant improvements in local governance in SSA. Crook (2003) attributes this to the creation or consolidation of local elite groups that are not committed to poverty reduction or transparent governance. The weak responsiveness of subnational governments to citizen needs reflects the lack of concern about poverty; the lack of transparency manifests itself in poor management of public resources. In Nigerian states, for instance, procurement is not open or competitive, and contracts are often awarded for personal and political reasons. In Tanzania, the relationship between local councilors and businesses is reported to have been a cause of concern (World Bank, 2003c).

Subnational PEM (public expenditure management) systems are weak. Internal controls, auditing, and monitoring and evaluation are severely hampered by outdated accounting sys-

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[9]One factor in poor governance is corruption. The cross-country evidence on the relationship between corruption and decentralization generally supports the hypothesis that decentralization lowers corruption (Fisman and Gatti, 2002a; De Mello and Barenstein, 2002; and Arikan, 2004).

tems, manual budget operations, and lack of skilled people. In 2001 and 2004, the PEM systems in four of the six country examples were evaluated by the World Bank and IMF (International Development Association and IMF, 2005). None of the subnational governments was in a position to report its fiscal accounts in 2001, though in 2004 Ethiopia was able to do so and Ghana showed improvement. Nigeria does not have a harmonized system of budget classification and accounting for all levels of government, although it is strengthening reporting and aligning budgeting across different levels of government. In Ethiopia, the rapid and largely unplanned *woreda* decentralization has exacerbated expenditure management problems, generated a backlog of accounts to be audited, and created difficulties in measuring spending. Further, inexperience in preparing full budgets and managing capital projects has sometimes hindered budget execution (Ahmad, Brosio, and Mattina, 2005). In Uganda, the poor quality of and delays in local government reports to the central government severely constrain the central government's capacity to monitor use of transferred resources.

 Capacity for expenditure management is generally weaker at the local level than at the center. For example, in Uganda, the government has implemented a Commitment Control System for its own nonwage, nonpension spending but not yet for local governments (IMF, 2006). When arrears are accumulated, they can be quantified at the central level but not at the local level, where information systems appear to be more deficient. Independent auditing has not been extended to local governments. Capacity also varies across subnational units. For instance, cash releases under some conditional grants depend on districts submitting accounting reports, but just 40 percent of districts submit final accounts on time. Similarly, Khemani (2006) finds large differences between two

Nigerian states in their capacity to meet health sector payroll obligations.

The limited empirical evidence on the impact of decentralization on regional disparities is mixed. In South Africa, where addressing regional disparities has high priority, educational expenditure, a provincial responsibility, grew faster in the poorest regions after decentralization (South Africa, Department of Finance, 1999). In Ethiopia, while regional disparities in net enrollment have narrowed considerably since decentralization, the gap between rural and urban areas in access to health care has increased (Ahmad, Brosio, and Mattina, 2005), despite the growing share in transfers of the poorest regions. Similarly, in Uganda from 1995 to 2000 there was a reduction in regional disparities in net primary school enrollments but an apparent worsening in under-five mortality.

There is some evidence that more resources are flowing to poor, remote areas that previously had few or no services (Crook, 2003). In the initial stages of decentralization, funding and services were supplemented by the establishment of local institutions (e.g., in Côte d'Ivoire, Ghana, Kenya, Mozambique,[10] Nigeria, and Uganda). In the long run, whether resources will continue to flow to disadvantaged areas will depend on the strength of central institutions for redistribution. In South Africa, an equitable share in intergovernmental transfers has a redistributive purpose; in 1999–2000, this share provided 83 percent of provincial revenue and 29 percent of total transfers to local governments (Smoke, 2000). In Ethiopia, transfers are based on population, level of development, and revenue effort, but population is heavily weighted at 55 percent, while level of development is weighted at only 25 percent (Degefa, 2003). In Nigeria, intergovernmental transfers are based on sharing mostly oil revenue (including a 13 percent allocation for oil-producing states). At the state level, the system gives heavy weight to "equality" (40 per-

[10]The World Bank's Decentralized Planning and Finance project provides capacity-building support and resources to 49 districts in four of the poorest provinces in Mozambique, where decentralization is an important component of rural development efforts.

cent); it sets no minimum standards of public services across regions and there is a low correlation between transfers and state needs (World Bank, 2003b).[11]

Fiscal decentralization does not appear to worsen macroeconomic position. Countries that are relatively more decentralized have not experienced larger budget deficits or higher inflation (Figures 5.6 and 5.7).[12] This may be because central governments regulate subnational borrowing or there is no need to borrow. Subnational governments in all six countries have some power to borrow domestically, but external borrowing (an issue only for federal or quasifederal systems) is generally subject to central approval or prohibited altogether.[13] In South Africa, provinces may borrow only for bridging or capital purposes; these constraints were imposed after some provincial deficits soared in the 1990s. Provincial budgets are now almost in balance, but some large municipalities have deficits. In Nigeria, although banks face steep provisioning requirements on loans to state and local governments, some states nevertheless carry per capita external debt that is equal to 86 percent of per capita income (World Bank, 2003b). Anecdotal evidence suggests that some subnational governments have also accumulated arrears (as in Uganda) that have become more significant

Figure 5.6. Fiscal Decentralization and Change in Government Budget Balance[1]
(Percent of GDP, from average of 1988–92 to average of 1993–97)
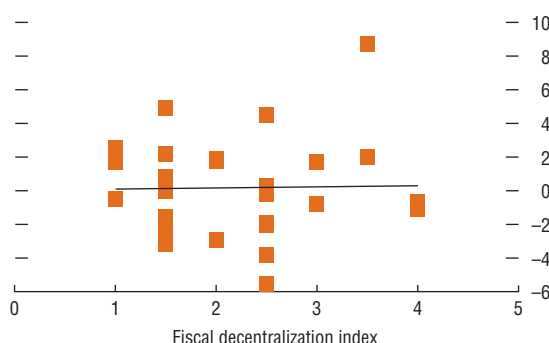
Sources: IMF, African Department database; and Ndegwa (2002) for index.
[1]The index of fiscal decentralization ranges from 0 to 5 and increases with degree of decentralization. Also see footnote 3 to this chapter.

[11]Equalization transfers are particularly difficult to design when subnational data are deficient and reliable indicators of regional disparities are lacking. The household surveys from which headcount poverty is measured often are too small to permit reliable estimates of variations in poverty and other social indicators.

[12]At the country level, monetary stability is endangered when the central bank is subservient to public financing needs. Shah (2005) notes that, in recognition of this problem, decentralized systems have tended to be associated with highly independent central banks.

[13]In unitary systems, local government borrowing is usually limited to bank overdrafts. In federal systems, borrowing powers at the regional tier are greater but monitored by the center. In Ethiopia, municipalities can borrow, which could become a vehicle for borrowing by *woredas* through mergers with municipalities. In South Africa, the local government stock of debt is likely larger than provincial debt; local government debt is about 1.5 percent of GDP while provincial debt appears to be negligible.

Figure 5.7. Fiscal Decentralization and Change in Inflation[1]
(Percent change, from average of 1988–92 to average of 1993–97)
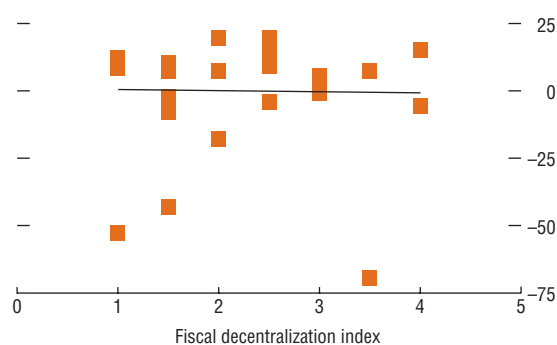
Sources: IMF, African Department database; and Ndegwa (2002) for index.
[1]The index of fiscal decentralization ranges from 0 to 5 and increases with degree of decentralization. Also see footnote 3 to this chapter.

than borrowing (Ahmad and Brosio, 2005; World Bank, 2003b).

The risk of unsustainable borrowing may increase as subnational governments take on more responsibilities. That is why the Nigerian federal government has introduced a fiscal responsibility bill to coordinate fiscal policy across the three tiers of government. The bill, pending approval by the Assembly, is considered a key part of the reform process that would help avoid macroeconomic instability arising from uncoordinated macrofiscal policies, as happened in 2000/01 when the states refused to curb their spending of oil windfalls (World Bank, 2003b). Because financial markets in SSA are underdeveloped and information on government finances is inadequate for risk assessment, market discipline on subnational government borrowing is weak. Subnational government ownership of commercial banks and development banks could also lead to quasifiscal operations and increased domestic borrowing. In Nigeria, private banks that lend to state governments are disproportionately dependent on those governments for deposits; this results in high risk concentration and increases the vulnerability of the banking sector to disruptions in subnational fiscal policy.

Revenue sharing and transfer mechanisms could complicate macrofiscal management. Mechanisms that are based on fixed ratios of national revenue automatically shift volatility to subnational governments. This is especially noticeable in resource-rich countries like Nigeria, although it is a risk in any system with significant national budget volatility (e.g., because of dependence on aid). Oil price swings can cause subnational boom-and-bust cycles of spending and borrowing, which not only complicate their expenditure planning but may also reduce macroeconomic stability. Nigeria's macroeconomic instability in 2000/01 highlights the need to minimize the procyclical nature of existing revenue sharing and transfer mechanisms, in addition to the need to strengthen macrofiscal policy coordination.

Fiscal devolution poses challenges to coordination of national poverty reduction strategies. In Uganda and Nigeria, where a substantial share of social spending is devolved to local governments, it has become difficult to coordinate national poverty reduction policies, set minimum standards, and monitor progress. In Nigeria, all 36 states have prepared State Economic Development Strategies, and the local governments are expected to prepare local equivalents. Given the large number of government entities and weak local capacity, preparing subnational strategies that are consistent with the national plan is daunting. The center must ensure that the priorities, standards, and policies articulated in subnational PRSPs reflect and reinforce the national strategy.

Challenges and Ways Forward

The critical challenge is to devise a framework that will enhance subnational accountability and strengthen incentives and capacity to deliver services, while preserving macroeconomic stability.[14] Although such a framework must necessarily be country specific, there are critical common elements.

Enhancing Subnational Accountability

Put subnational budget controls in place before devolving expenditures. To curtail the incentive of subnational governments to hire too many social workers when assignments overlap, financing responsibility should ideally be devolved to subnational governments. However, full devolution must be accompanied by resource transfers from the center. Moreover, devolution should be considered only if there is

local capacity to allocate funds to their intended use; otherwise, increased responsibilities and transfers may result in unused funds or waste of resources. It is therefore essential that subnational budget controls be in place. The budget should assess the cost implications of employment decisions, based on sector strategies consistent with national PRSPs.

Publish timely information on budget allocations. To enhance its effectiveness, decentralization needs to be accompanied by increased "client power" (Svensson and Reinikka, 2004). That is more likely to happen if citizens are aware of budget allocations. In Uganda, as a result of wide dissemination of information on per-student capitation grants, 82 percent of such grants reached schools in 2001, compared with 13 percent in 1991–95 (World Bank and IMF, 2005). In general, dissemination of budget information should be an integral part of the participatory process that PRSPs envisage.

Use Public Expenditure Tracking Surveys to track the flow of funds through subnational governments. These surveys are particularly useful when public accounting systems are weak or unreliable. They can provide not only information about the extent to which resources have leaked away from frontline services, as in Uganda, but also on how funds are spent at each tier of government and on frontline performance.[15]

Confront subnational governments with the possibility of budget sanctions. When subnational governments fail to meet their obligations, there is a tendency for the next higher tier of government to assume them, as in the payment of social sector salaries in some countries. That not only creates a moral hazard, it also fails to address the root cause of the problem, which often is lack of accountability rather than of

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[14]The accountability of a subnational government ultimately depends on the political process in the country, but an analysis of this issue is beyond the scope of this chapter. See World Bank (2003a) and Ahmad and others (2005) for a discussion of the political economy approach to fiscal decentralization.

[15]Public Expenditure Tracking Surveys are best conducted by external researchers or government statistical staff, not officials directly involved in managing the funds. They should cover all tiers of government from budget allocation to service delivery. A rigorous Public Expenditure Tracking Survey can be implemented for as little as $50,000 (Reinikka and Smith, 2004).

resources.[16] Similarly, deduction at the source is unlikely to strengthen accountability because it reduces the transparency of revenue transfers and sharing.

Link expenditure assignments to service benchmarks. This would be an extension of the accountability benchmarking often used in budgeting. Benchmarks enable the public to assess the effectiveness of their local governments by linking expenditures to standards of service delivery, minimizing the risk of low-return expenditures. Some countries—e.g., Nigeria—have begun to take steps in this direction. Furthermore, benchmarks and transfers should be formally linked to cost of services based on expressed local needs, taking account of local capacity to meet these needs. The costing of services should be transparent and revised periodically. Such cost- and needs-based transfer systems may call for substantial changes relative to current allocations based on recent expenditure levels.[17] Thus, service benchmarking could be introduced in conjunction with assessments of expenditure assignments and transfer arrangements.

Create incentives in the revenue transfer system to improve services. One option is to make revenue transfers contingent on subnational governments meeting service benchmarks. Failure to do so would result in penalties, such as deferred transfers and sanctioning of culpable officials until performance improves. Penalties should be made public to complement efforts to increase downward accountability. Tanzania's Local Government Support Program (partly financed by the World Bank) uses transfers to provide incentives for improving the administrative performance of local governments.

Increased discretion in the use of transfers is contingent upon local governments meeting performance criteria.

Strengthen reporting of subnational fiscal operations. Timely and accurate reporting is crucial for assessing the performance of subnational governments and enforcing upward accountability. Effective PEM systems generate budgetary data that can be used to measure service delivery against financial inputs when combined with other tools, such as Public Expenditure Tracking Surveys and quantitative surveys.[18] South Africa's system is most advanced in this regard. Its Public Finance Management Act requires that the National Treasury publish quarterly reports on provincial operations, and a similar framework is likely to be extended to municipal governments. It is also necessary to make subnational reporting more transparent and less time-consuming. For instance, the Nigerian government has proposed a tighter alignment of budgeting across the three tiers of government, although the draft bill has not yet been passed by the legislature. Uganda is planning to reduce the number of monthly transfers to districts from nearly 30 to a handful, essentially divided between a development and a recurrent transfer. Well-functioning PEM systems are critical in countries making extensive use of block grants or revenue sharing; in these countries, it is important to generate information on how subnational governments allocate resources.

Improving Subnational Revenue Collection

Give subnational governments clearly defined but limited authority over the rates applied to a harmonized tax base.[19] Because subnational gov-

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[16]Khemani (2006) found little evidence that local governments in two Nigerian states were unable to pay salaries because of resource constraints—salaries went unpaid even when the budget provided for them, suggesting that the source of the problem was leakage of funds from their intended use.

[17]This can be difficult to deal with. For example, Ethiopia found that some *woredas* experienced sharp reductions in transfers when greater weight was given to needs, necessitating gradual adjustment to the new levels of transfers.

[18]Quantitative Service Delivery Surveys look at the frontline service-providing unit (e.g., health facility or school), similar to multipurpose household and firm surveys. They inquire into resource flows, availability and adequacy of inputs, service outputs and efficiency, and quality of service. Quantitative Service Delivery Survey studies have been undertaken in Mozambique, Nigeria, Uganda, and Zambia.

[19]To avoid coordination difficulties when different levels of government are sharing tax bases, Gupta and others (2005) recommend that fiscal arrangements specify who is the lead player on joint decisions and the mechanisms for resolving differences when they arise.

ernments tend to have few buoyant revenue sources, the ability to impose a surcharge on more buoyant national tax bases is often the only meaningful way they can link their expenditures to revenue responsibilities. In South Africa, subnational governments can apply surcharges on income on top of national income taxation, though they have not yet chosen to do so. This leaves the administrative complexity of defining the tax base to the center, where capacity is the strongest. In contrast, Nigeria does not match its assignment of tax revenues with autonomy in setting rates. Except in South Africa, legislative changes will be required to enable subnational governments to impose an income surcharge.

Avoid splitting economically similar tax bases. Such splits complicate the tax system and dilute tax collection capacity without linking subnational taxation to service provision. Ethiopia, for example, divides assignments of income, profit, and sales taxes based on form of employer and ownership or type of business of the payee. Thus, federal employees living in a local jurisdiction cannot link their tax payments to local services because the payments go to the federal government. Similarly, the local tax agency collects the personal income tax of *woreda* employees while the same tax on regional government staff is collected by the regional tax unit.

Establish clear general guidelines for local taxes to prevent proliferation of inefficient subnational tax instruments. Not only do such instruments fail to contribute significantly to revenues, they also do not lead to greater spending accountability. In fact, their introduction itself often reflects a lack of accountability. The proliferation of such taxes may be the result of a mismatch between transfers and subnational expenditure responsibilities. In countries rich in natural resources, there is room to streamline subnational taxation systems. In countries where the center retains authority over which taxes subnational governments can introduce, the central

government could set general guidelines for local taxes. For example, the government of Uganda established a Local Revenue Enhancement Coordination Committee to help local governments exercise best practices in local taxation. In countries (especially those with federal systems) where residual tax power rests with subnational governments, agreement on tax guidelines could be sought between the center and subnational governments.

Tailor administration of property taxes to local conditions. Although it has been difficult to collect property taxes in many SSA countries, South Africa's experience shows that such taxes can be an important and stable source of subnational revenue. While most SSA countries cannot expect such a stable source of revenue to emerge in the short run because infrastructure is lacking for collecting taxes, they can develop a base for related taxes, at least in urban and semi-urban areas. Some countries have based local taxation on street addresses—in effect taxing residents rather than owners (Farvacque-Vitkovic and Godin, 1998). Burkina Faso has an urban residence tax; the amount depends on the level of services in the neighborhood and the quality of homes as measured by water and electricity consumption. Ghana and Tanzania tax land use instead of properties.[20]

Consider user fees to finance municipal services in urban areas. While such fees should avoid imposing hardship on the poor, certain services are often used primarily by the well-off. Fees-for-service in such cases are thus justified on equity grounds; the center can set guidelines on the types and amounts of user fees local governments can charge. For example, fees on basic health care and primary education might be subject to equity guidelines.

Set transfer formulas that provide incentives for subnational revenue mobilization. There is a trade-off between equity-based transfers and the need to preserve subnational revenue incentives.

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[20]Buildings can be taxed in both countries even when the ground title is owned by the government. Tanzania has launched a Property and Business Formalization Program that would expand individual titling. Combining property tax collection with collection of land rents is another option that would offer administrative simplicity.

Though local taxation can enhance the accountability of subnational governments to their citizens, if the revenue raised is offset by lower transfers from the center, the gain in accountability is dissipated.[21] Central government earmarking of local revenues, as in Tanzania, should be avoided.

Strengthening Subnational Capacity

Link the speed of decentralization to local capacity. For the most part, when a country in SSA undertakes decentralization, it is at the same pace throughout the country. Even when it has been phased in, as in Tanzania, the design has tended to be time- rather than capacity-based, regardless of outcomes in implementing the earlier stages. While constitutions in federal systems provide for symmetric devolution to all states or provinces, the latter still have discretion in how much responsibility they actually delegate to local governments.[22] The risks of proceeding at a uniform pace are illustrated by Uganda, where rapid decentralization in the late 1990s overstretched the capacity of districts to absorb new responsibilities. The fact that several dimensions of capacity, including cost of service delivery and revenue generation, tend to be better in urban areas suggests that regions containing cities would be good candidates for pilot decentralization programs.

In postconflict states, proceed flexibly with fiscal decentralization over the medium term (Gupta and others, 2005). Administrative skills are often in acute shortage even at the center in postconflict countries. The short-run priority should thus be to strengthen central administrative capacity. Where possible, revenue-sharing arrangements should be fixed only

for a limited time until subnational capacity is sustainable.

Design public service reform initiatives to encompass subnational governments. Past reform efforts have tended to concentrate on the central government. This risks a potentially large gap in reform efforts, especially in federal systems where subnational governments have discretion over conditions of employment. Because conditions for central government employment typically set a benchmark for subnational employees, it is important to ensure that reforms to boost central government productivity are replicated subnationally. Integrated management of public services also encourages postings in disadvantaged areas when the center offers promotion opportunities or bonus payments.

Delegate capital expenditures to subnational levels as capacity improves. Most decentralized systems retain capital projects at higher levels while delegating operations and maintenance.[23] This is generally appropriate given limited subnational capacity, the likelihood of externalities from capital projects, and weak accountability that renders capital spending vulnerable to capture by local elites (World Bank, 2003a). Over time, however, subnational governments must be able to strengthen their capacity through learning by doing. It is difficult to align capital spending closely with local needs unless subnational governments play a major role in designing and implementing capital projects.

Ensuring Macroeconomic Stability

Define and enforce subnational borrowing rules. The underdevelopment of domestic financial markets makes it critical to regulate subna-

[21]Ethiopia's transfer formula from the federal government to regions contains a revenue effort indicator that in principle attaches positive weight to local revenue generation. Since the indicator is the ratio of budgeted own revenue to recurrent expenditure and its variation is dominated by expenditure changes, it has little to do with own revenue effort.

[22]In Ethiopia, for example, the four regions with the most advanced PEM systems proceeded first with decentralization to local governments.

[23]In such settings, it is important that the government as a whole take account of the recurrent cost implications of capital projects and that delegation of operations and maintenance responsibility is not simply a means of shifting budgetary burdens.

tional borrowing in SSA. In many countries, the rules on subnational borrowing are unclear, as are the conditions under which subnational governments can borrow. In Tanzania, moreover, most lending to local governments is from the public Local Governments Loan Board, which risks creating central fiscal obligations from subnational borrowing. In countries where subnational capacity is adequate and there is central oversight, the golden rule of borrowing for capital expenditure can be followed: subnational borrowing for bridging purposes is acceptable, so long as the lender and the subnational borrower operate at an arm's length.[24]

Eliminate subnational arrears. In some countries, the primary subnational debt risk is accumulation of arrears (notably in pension programs for employees, as in Tanzania). It is critical to avoid the perception that allowing obligations to lapse into arrears can be used as a substitute for borrowing. The central government should formulate clear rules on eliminating arrears and avoiding accumulation of future arrears. It should also harden subnational budget constraints by making it clear that it will not "gap fill" if subnational arrears arise.

Install a mechanism for monitoring subnational debt and arrears. Although the debt burden of subnational governments appears to be limited, there are cases where subnational debt has become difficult to sustain, as it has for some Nigerian states. Current institutions seem unable to monitor subnational debt; there are many information gaps. Subnational debt reporting should be an important factor in intergovernmental fiscal relations. PEM systems should also be strengthened to monitor subnational arrears, tracking commitments as well as disbursements.

Establish a mechanism for coordinating macrofiscal policies between the center and sub-national governments. Macroeconomic coordination will become increasingly important as more fiscal operations devolve to subnational levels. Coordination should be based, first and foremost, on a national macroeconomic framework, which should consist of (1) an agreement among the different tiers of government on likely developments in inflation and other macroeconomic variables in a given year and the requisite fiscal stance at the consolidated level; (2) a mechanism for coordinating the preparation of central and subnational budgets; (3) sharing of information on the budget during the year; and (4) the necessary institutions, such as the fiscal monitoring councils envisaged in the Nigeria fiscal responsibility bill.

Make rules for revenue-sharing and transfer arrangements part of the macrofiscal coordination framework. If possible, the revenue-sharing formula might apply different rules to different revenue sources depending on their volatility. One option is to convert the share of oil revenues (for that matter, any volatile revenue) belonging to oil-producing subnational governments into a royalty. Another option to smooth spending is to set aside at least part of any oil windfalls (or any volatile revenue) for stabilization purposes. Such arrangements can be particularly useful in easing liquidity constraints over time and reducing incentives for subnational borrowing. Some countries have already introduced measures to smooth oil-driven spending. In Nigeria, for example, an oil-price-based fiscal rule has mandated substantial public saving from windfalls. Uganda's Poverty Action Fund, which seeks to insulate poverty-reducing budget components from transfer-driven volatility, has beneficial effects for local governments. Nevertheless, the effectiveness of such stabilization mechanisms depends on complete budget discipline and the soundness of the governance structure.[25]

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[24]Publicly owned banks have a high propensity to lend to government entities (e.g., Hauner, 2006).
[25]See Davis and others (2001) for a further discussion of oil funds.

Table A1. Multilateral Debt Relief Initiative: IMF Relief

Country	US$ millions	Percent of 2005 GDP	2006 Fund Flow Relief as Percent of Government Net Foreign Financing (including grants)	Quality of PEM System (benchmarks met, out of 16)
Benin	49	1.1	5.2	8
Burkina Faso	82	1.4	2.0	9
Ethiopia	114	0.9	0.3	7
Ghana	314	2.9	5.5	7
Madagascar	184	3.9	3.5	4
Mali	89	1.7	4.0	11
Mozambique	119	1.8	1.1	4
Niger	86	2.5	1.9	5
Rwanda	29	1.4	1.8	8
Senegal	135	1.6	7.3	7
Tanzania	296	2.4	3.8	11
Uganda	108	1.2	3.8	8
Zambia	570	7.9	3.3	3

Sources: IMF staff estimates. IDA and IMF paper on "Update on the Assessment and Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Public Spending," April 12, 2005; available on the Internet at http://www.imf.org/external/np/pp/eng/2005/041205a.htm.

Note: Figures refer to relief net of HIPC assistance (available in the HIPC umbrella accounts).

Table A2. Sub-Saharan Africa: Financial Indicators, 2004

	Number of Commercial Banks	M2/GDP (percent)	Bank Assets/GDP (percent)	Private Sector Credit/GDP (percent)	Central Government Credit/GDP (percent)	Capital Adequacy Ratio (percent)	Population with Formal Bank Account (percent)
Angola	16	15.0	24.1	4.3	1.9	19.6	2.0
Benin	9	23.5	. . .	14.1	1.0	. . .	. . .
Botswana	10	30.2	37.0	17.7	. . .	20.6	47.0
Burkina Faso	8	21.7	. . .	13.1	1.2	. . .	2.7
Burundi	8	26.9	. . .	21.5	0.9	20.2	. . .
Cameroon	10	17.3	18.7	8.8	1.7	8.3	3.7
Cape Verde	4	74.6	86.0	34.9	22.5	13.3	. . .
Central African Rep.	3	16.0	8.8	6.5	1.0	. . .	0.8
Chad	7	8.5	10.0	3.3	0.8	. . .	0.4
Comoros	1	22.1	19.0	. . .	0.4	. . .	5.0
Congo, Dem. Rep. of	9	8.3	8.0	1.1	0.6	. . .	. . .
Congo, Rep. of	4	14.6	8.9	3.2	0.9	3.7	2.7
Côte d'Ivoire	16	23.6	. . .	13.8	3.6	. . .	. . .
Equatorial Guinea	4	8.8	9.6	. . .	0.2	. . .	2.7
Eritrea	2	153.3	171.0	. . .	51.0	. . .	. . .
Ethiopia	9	57.4	84.3	21.0	12.7	12.3	. . .
Gabon	6	17.3	22.1	9.3	2.6	17.8	16.0
Gambia, The	7	45.1	55.6	12.9	9.7	8.0	. . .
Ghana	9	32.1	27.3	11.6	8.9	9.3	5.0
Guinea	7	16.9	14.1	. . .	3.8	20.6	. . .
Guinea-Bissau	1	30.5	9.3	1.7	0.5	. . .	. . .
Kenya	43	39.0	38.5	23.5	10.1	16.5	10.0
Lesotho	4	25.8	37.0	5.6	8.3	. . .	17.0
Liberia	3	. . .	26.4	. . .	. . .	. . .	. . .
Madagascar	7	24.4	24.5	8.5	4.0	12.0	1.4
Malawi	10	22.7	32.5	5.7	5.3	23.0	. . .
Mali	10	29.4	30.1	19.0	0.6	8.0	. . .
Mauritius	10	89.7	. . .	56.4	21.6	14.3	. . .
Mozambique	13	25.3	. . .	1.9	5.0	14.0	. . .
Namibia	4	40.0	61.9	42.7	5.0	14.8	28.4
Niger	7	14.3	9.3	5.6	0.6	. . .	. . .
Nigeria	90	23.6	45.0	13.7	5.0	—	9.6
Rwanda	6	18.2	18.2	9.8	1.5	18.3	7.0
São Tomé and Príncipe	6	49.2	66.4	. . .	. . .	. . .	18.7
Senegal	12	35.5	. . .	20.3	1.7	11.5	. . .
Seychelles	6	110.9	143.8	28.0	78.9	18.0	. . .
Sierra Leone	7	19.1	. . .	3.9	4.8	38.1	. . .
South Africa	35	66.5	109.0	79.9	6.8	13.3	46.0
Swaziland	4	21.0	26.5	17.3	2.0	. . .	35.3
Tanzania	21	23.1	23.0	7.5	2.6	21.2	5.0
Togo	3	28.6	. . .	15.9	1.4	. . .	. . .
Uganda	15	20.5	22.1	5.9	6.8	20.6	6.3
Zambia	15	21.8	26.9	6.5	7.0	0.0	. . .
Zimbabwe	12	38.8	85.9	21.7	7.8	35.7	17.4
SSA	30	42.7	67.4	39.5	6.1	12.6	26.8
SSA MIC	30	59.9	96.0	70.2	6.7	14.0	41.2
SSA LIC	30	27.6	38.3	12.3	5.5	11.2	7.6
Oil-exporting countries	53	20.0	33.6	11.1	3.5	4.9	7.1
Oil-importing countries	23	49.4	77.5	47.6	6.8	14.7	33.9
CFA countries	9	20.4	16.1	11.8	1.5	9.8	3.9
Non-CFA countries	34	46.5	72.5	44.0	6.8	12.8	29.2

Sources: IMF, African Department Financial Sector Profiles, and *International Financial Statistics;* Beck, Demirgüç-Kunt, and Peria (2005); and Claessens (2005).
Note: Where 2004 data are not available, the nearest available data are used. The averages are calculated using PPP-adjusted GDP weights.

Table A3. Sub-Saharan Africa and Comparator Groups: Ownership in the Banking Sector
(Share of bank assets)

	State Ownership		Foreign Ownership	
	1996–99	2000–03	1996–99	2000–03
Sub-Saharan Africa	0.2	0.1	0.4	0.5
Other low-middle-income	0.3	0.3	0.2	0.2
Sub-Saharan Africa low-income	0.3	0.2	0.4	0.4
Other low-income	0.4	0.4	0.1	0.1
CFA countries	0.1	0.1	0.5	0.5
Oil producers	0.1	0.2	0.3	0.3
Sub-Saharan Africa middle-income	0.2	0.1	0.4	0.6

Source: Inter-American Development Bank (IADB) country-level data.
Note: The income groupings are based on the World Bank rankings of gross national income (GNI) per capita in 2004. The groups are: low-income, GNI per capita of $825 or less; lower-middle-income, GNI per capita of $826–$3,255. "Low-middle-income" refers to countries in these two groups; low-income refers to the former only.

Table A4. Structure of Nonbank Financial Institutions, 2004

	Insurance Companies			Pension Funds			Other NBFIs		
		Assets as percent of			Assets as percent of			Assets as percent of	
	Number	Total financial assets	GDP	Number	Total financial assets	GDP	Number	Total financial assets	GDP
Botswana	13	1.6	1.5	139	17.4	16.1	8	34.3	31.7
Ethiopia	8	1.5	1.4	1	1.5	1.4	1,050	3.0	2.9
Gabon	6	7.1	1.9	1	...	1.1	8	4.9	1.3
Ghana	18	2.0	1.1	1	15.1	8.1	286	6.0	3.2
Kenya	44	8.2	6.8	781	...	13.2	2,689	15.0	12.6
Nigeria	118	2.1	...	9	0.6	...	502	8.1	...
Rwanda	4	4.3	1.5	1	20.6	7.1	5	7.1	2.4
Seychelles	2	2.1	3.4	1	5.0	8.3	3	5.8	9.6
Tanzania	14	4.0	1.0	3	13.0	4.0	...	...	...
Uganda	19	...	0.8	2	...	2.5	83	...	0.3
Zambia	8	3.5	1.6	190	16.7	7.0	42	23.1	9.7
Zimbabwe	23	3.6	4.1	28	2.0	2.3	171	10.2	11.4

Source: IMF, Financial Sector Profiles.

Table A5. Sub-Saharan Africa: Financial Soundness Indicators

	Years	Sub-Saharan Africa	Other Low-Middle-Income (excluding SSA)	Sub-Saharan Africa Low-Income	Other Low-Income (excluding SSA)
Total problem loans	1996–99	9.2	8.5	9.4	9.1
Percent of assets	2000–03	8.3	15.6	9.1	9.4
Total capital	1996–99	14.5	14.1	15.6	13.8
Percent of assets	2000–03	18.9	17.1	21.4	15.7
Liquid assets	1996–99	26.3	20.0	30.5	21.2
Percent of assets	2000–03	28.8	21.2	28.8	21.9
Provisioning	1996–99	44.4	65.5	74.8	40.4
Percent of problem loans	2000–03	43.9	39.3	41.3	29.6

Source: IMF staff calculations from bank-level data by IADB staff.

Table A6. Sub-Saharan Africa and Comparator Groups: Financial Soundness Indicators by Ownership Category

	Years	Sub-Saharan Africa	Other Low-Middle-Income (excluding SSA)	Sub-Saharan Africa Low-Income	Other Low-Income (excluding SSA)
		Public banks			
Total problem loans	1996–99	12.2	12.8	12.8	14.4
Percent of assets	2000–03	10.7	15.4	15.9	14.2
Total capital	1996–99	26.4	23.6	21.5	25.5
Percent of assets	2000–03	33.8	31.7	38.9	25.4
Liquid assets	1996–99	28.0	27.9	30.5	33.1
Percent of assets	2000–03	40.3	29.6	39.7	37.2
Provisioning	1996–99	65.0	68.0	74.8	24.2
Percent of problem loans	2000–03	84.0	31.0	58.2	28.4
		Domestic private banks			
Total problem loans	1996–99	9.4	6.7	9.7	4.0
Percent of assets	2000–03	12.3	10.0	9.6	4.0
Total capital	1996–99	12.5	11.5	12.4	5.4
Percent of assets	2000–03	15.6	14.5	17.6	10.6
Liquid assets	1996–99	22.9	17.5	23.1	15.8
Percent of assets	2000–03	23.6	18.2	23.0	17.1
Provisioning	1996–99	38.3	70.0	36.7	. . .
Percent of problem loans	2000–03	38.6	38.3	35.5	. . .
		Foreign banks			
Total problem loans	1996–99	7.8	7.5	7.5	. . .
Percent of assets	2000–03	5.9	4.0	6.7	
Total capital	1996–99	16.3	7.3	20.2	8.2
Percent of assets	2000–03	21.3	12.1	24.6	5.1
Liquid assets	1996–99	33.2	19.8	37.5	25.4
Percent of assets	2000–03	36.9	23.4	40.1	24.2
Provisioning	1996–99	50.0	50.0	51.0	27.0
Percent of problem loans	2000–03	49.5	59.0	53.3	. . .

Source: IMF staff calculations from bank-level data by IADB staff.
Note: In some cases, indicated by ". . ." the number of observations was too small to permit a meaningful calculation.

Table A7. Sub-Saharan Africa and Comparator Groups: Banking Sector Income and Costs Overall and by Ownership
(Percentage of assets)

	Net Interest Margin		Loan Loss Provisions		Overhead		Profit Before Tax	
	1996–99	2000–03	1996–99	2000–03	1996–99	2000–03	1996–99	2000–03
Sub-Saharan Africa	8.0	8.2	3.4	3.5	7.4	7.4	3.0	3.0
Other low-middle income (excluding SSA)	7.1	6.6	5.1	3.4	7.0	7.1	0.2	1.1
Sub-Saharan Africa low-income	8.2	8.5	3.7	3.7	7.6	7.7	3.3	3.2
Other low-income (excluding SSA)	5.5	4.9	3.4	3.0	5.3	5.3	1.1	1.1
	Public Banks				**Foreign Banks**			
	Net interest margin		Overhead		Net interest margin		Overhead	
	1996–99	2000–03	1996–99	2000–03	1996–99	2000–03	1996–99	2000–03
Sub-Saharan Africa	8.2	7.1	7.2	7.1	10.1	9.8	7.9	7.9
Other low-middle income (excluding SSA)	9.3	8.6	9.2	9.1	5.9	6.2	6.1	6.9
Sub-Saharan Africa low-income	10.0	9.4	9.1	9.3	10.9	10.1	8.4	8.1
Other low-income (excluding SSA)	6.4	6.4	6.7	7.3	5.2	4.1	3.6	4.2

Source: IMF staff calculations from bank-level data by IADB staff.

Table A8. Determinants of Banking Sector Depth and Efficiency in Lower-Income Countries

Dependent Variable	Loans-to-GDP Ratio				Overhead Costs			
GDP per capita	3.4*	(0.07)	1.8	(0.34)	−0.2	(0.67)	0.4	(0.36)
Corruption	14.4*	(0.01)	15.2*	(0.01)	−1.0	(0.27)	−1.4	(0.11)
Inflation	−4.4*	(0.01)	−4.2*	(0.01)	0.66*	(0.03)	0.6*	(0.04)
Budget balance	0.0	(0.96)	0.2	(0.73)	0.0	(0.70)	0.0	(0.73)
Interest on public debt	0.3	(0.57)	0.7	(0.20)	−0.1	(0.60)	−0.2	(0.19)
Concentration	−19.2*	(0.01)	−16.0*	(0.01)	−2.7*	(0.06)	−3.5*	(0.01)
Sub-Saharan Africa dummy			−6.4*	(0.04)			2.1*	(0.01)
Number of observations	72		72		70		70	
R-squared	0.59		0.62		0.25		0.36	

Source: IMF staff calculations from data in Detragiache, Gupta, and Tressel (2005).
Note: *P*-values in parentheses and coefficients significant at 10 percent are indicated with *. The dependent variables are averages for 1999–2001 and the right-hand side variables cover various periods in the 1990s; see source for details. Regressions include a dummy for transition countries. Overhead costs are expressed as a percentage of bank assets.

Table A9. CFA Franc Zone: Interbank Market Transaction Volumes, 1997–2005
(Monthly average, in billions of CFA francs)

	CFA Franc Zone: Interbank Markets								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
WAEMU									
CFA franc billions	105.6	152.4	199.6	155.6	126.8	105.6	52.8	48.0	66.0
CEMAC									
CFA franc billions	3.9	19.4	21.2	14.7	23.6	13.1	9.2	7.5	. . .

Sources: Banque Central des États de l'Afrique de l'Ouest (BEACO—Central Bank of West African States) and Banque des États de l'Afrique Centrale (BEAC—Bank of Central African States).

Table A10. Sub-Saharan Africa and Comparator Groups: *Doing Business* Legal and Credit Indicators
(Values in 2005)

	Sub-Saharan Africa	Other Lower-Income (excluding SSA)	Sub-Saharan Low-Income	Other Low-Income (excluding SSA)
Credit-conducive legal rights index	4.3	4.6	4.4	4.4
Credit information index	1.5	2.1	1.4	1.4
Public credit registry coverage (percent of adults)	0.8	3.1	0.8	0.8
Private credit bureau coverage (percent of adults)	3.7	6.9	0.2	0.2

Source: World Bank, *Doing Business 2005* dataset.
Note: The legal rights index ranges from 0 to 10, higher scores indicate that collateral and bankruptcy laws are better designed to expand access to credit. The credit information index ranges from 0 to 6; higher values indicate that more credit information is available from either a public registry or a private bureau to facilitate lending decisions. Both coverage variables reflect the number of borrowers covered by registry or bureau as a percentage of the adult population.

Table A11. Sub-Saharan Africa: *Doing Business* Indicators and the Private Loan Share

	Sub-Saharan Africa Regressions		Sub-Saharan Africa Low-Income Regressions	
	Dependent variable: private loan share of GDP			
Legal rights index	0.02 (0.18)	0.01 (0.56)	0.01* (0.06)	0.02* (0.03)
Credit information index	0.03* (0.06)	0.01 (0.86)	0.01 (0.80)	0.00 (0.95)
Interest rate spread	−0.01 (0.12)	−0.01* (0.05)	−0.01* (0.04)	−0.01* (0.02)
GDP per capita		0.11 (0.01)		0.03 (0.26)
R-squared	0.26	0.54	0.25	0.29

Sources: World Bank, *Doing Business 2005* dataset; IMF, *International Financial Statistics,* and *World Economic Outlook.*
Note: Significance levels in parentheses. Coefficients significant at 10 percent or better are indicated by *.

Table A12. Sub-Saharan Africa and Comparator Groups: Banking Supervision and External Oversight

	Sub-Saharan Africa	Other Low-Middle Income (excluding SSA)	Sub-Saharan Low-Income	Other Low-Income (excluding SSA)
Banking supervision				
Official supervisory power	10.9	10.6	11.0	11.2
Prompt corrective power	2.0	3.1	2.2	4.1
Discretionary forbearance	1.9	1.0	2.0	0.9
Strength of external audit	6.1	5.8	6.3	6.0
External oversight of banking systems				
Financial statement transparency	4.6	4.4	4.7	4.4
Accounting practices	0.9	0.8	0.9	0.9
External ratings & credit monitoring	1.0	1.6	1.0	1.6
Private monitoring index	7.4	7.0	7.4	6.4
External governance index	13.3	12.4	13.5	12.6

Source: IMF staff calculations from indices in Barth, Caprio, and Levine (2004).

Table A13. Sub-Saharan Africa: The Choice of Anchor for Inflation

	Description	Number of Countries					
		1980	1985	1990	1995	2000	2004
Exchange rate anchor	French franc/euro [CFA Zone]	14	14	14	14	14	14
	South African rand [CMA]	2	2	3	3	3	3
	U.S. dollar[1]	5	4	4	6	3	3
	Portuguese escudo	0	0	1	0	0	0
	Spanish peseta	1	0	0	0	0	0
	Pound sterling	1	1	0	0	0	0
	SDR	11	7	2	1	0	0
	Other currency composites[2]	5	9	10	3	2	3
Monetary anchor	Defined monetary aggregate target[3]	0	0	0	0	7	6
	Other	5	7	10	17	12	14
	of which: Fund-supported program[4]	. . .	. . .	. . .	. . .	10	7
Inflation anchor	Inflation targeting framework	0	0	0	0	1	1
	Description	As percent of total non-CFA non-CMA countries					
	U.S. dollar	18	14	15	22	12	11
	Portuguese escudo	0	0	4	0	0	0
	Spanish peseta	4	0	0	0	0	0
	Pound sterling	4	4	0	0	0	0
	SDR	39	25	7	4	0	0
	Other currency composites	18	32	37	11	8	11
Exchange rate anchor		83	75	63	37	20	22
	Monetary aggregate target	0	0	0	0	28	22
	Other	18	25	37	63	48	52
	of which: Fund-supported program	. . .	. . .	. . .	. . .	40	26
Money-based anchor		18	25	37	63	76	74
Inflation anchor	Inflation targeting framework	0	0	0	0	4	4

Source: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions* (2004).
[1]Seychelles, Guinea, and Eritrea.
[2]Botswana, Comoros (euro), and Cape Verde (euro).
[3]Includes countries targeting either broad or reserve money.
[4]Programs typically defined in terms of NIR floor and NDA ceiling.

Table A14. Expenditure Assignments in Six Sub-Saharan African Countries

	Central	Regional	Local
Ethiopia	Standard federal government functions and social sector financing.[1]	Education, health, roads (can be delegated to local). Social sector financing and monitoring.	Education and health, including hiring, operations, and maintenance; infrastructure.
Tanzania	Standard unitary government functions including financing and target setting for social sectors.	(Minimal regional tier.)	Primary education and health, under tight monitoring from center; also water, local roads, extension services.
Ghana	Standard unitary government functions, including financing and personnel for social sectors and district employees.	Ten Regional Coordinating Councils with limited planning functions.	Some public infrastructure; school buildings and maintenance; basic public health functions and municipal services.
Uganda	Standard decentralized unitary government functions; policy setting and financing for social sectors.	Social sectors and roads, including administration, operations and maintenance; hiring of social sector personnel.	Municipal services; social sector administration, operations, and maintenance; infrastructure.
South Africa	Standard federal government functions (quasi-federal system).	Concurrent policy-setting powers with center in social sectors, public works, economic affairs; social sector personnel hiring, operations and maintenance, administration, and equipment.	Municipal services and utilities.
Nigeria	Standard federal government functions and third level education (shared with states).	Concurrent policy-setting powers with center in social sectors and public works; social sector personnel hiring, operations, and maintenance; administration; secondary education.	Municipal services; primary education, basic health care; some social sector maintenance.

Source: Ahmad and Brosio (2005); and IMF staff calculations.
[1]The standard unitary government functions for the central government are policy determination and financing for domestic economic policy and service provision.

Table A15. Revenue Assignments in Six Sub-Saharan African Countries[1]

	Central	Regional	Local
Ethiopia	International trade taxes, profit and sales taxes from federal government enterprises; income tax on federal employees; excises and federal government user fees.	Income and sales taxes from regional public enterprises, plus property taxes on regional government and private property (shared with local); income tax on regional employees.	Income tax on local employees, agricultural income tax, certain user fees and charges, merchant taxes, shared property tax revenue.
Tanzania	Standard unitary tax instruments and bases.	(Minimal regional tier.)	Main local revenue source was Development Levy (a poll tax with amount based on income), now abolished. A range of transaction levies and fees and a property tax.
Ghana	Standard unitary tax instruments and bases.	(Minimal regional tier.)	Taxes on incomes of self-employed, businesses and property. User fees and permits. Only fees and property taxes in major use; also limited tolls and fees.
Uganda	Standard unitary tax instruments and bases.	Main instrument was Graduated Personal Tax (hybrid income/poll tax) now abolished. Property tax available but little used.	Various village market taxes and fees.
South Africa	Personal and corporate income, sales, value-added, and customs reserved as tax bases for the center.	Taxes on bases other than personal and corporate income, general sales, value added, customs, property; provinces can levy a personal income surcharge with approval of center (not yet exercised). Most important sources are road traffic fees and gambling taxes.	Property taxes, fees, and regional services charge (hybrid payroll/ turnover tax on businesses). Some municipalities have substantial utilities revenue.
Nigeria	Taxes on corporate income (including petroleum profits), VAT, taxes on nonresidents, Abuja residents, and personal income tax of certain federal employees.	Personal income and capital gains; development and occupancy levies; other fees, levies, and duties (e.g., gambling, roads, stamp duties).	User and utility fees.

Sources: Ahmad and Brosio (2005); and IMF staff calculations.
[1]The standard unitary tax instruments are taxation of personal and corporate income, capital gains, and sales, along with customs and excise duties and trade taxes.

Table A16. Uganda: Education and Health Care Outcomes, 1995 and 2000

	Poverty Incidence 2000	Primary School Net Enrollment		Infant Mortality		Child (Under 5) Mortality	
		1995	2000	1995	2000	1995	2000
Central	20	79	77	77	72	141	135
Eastern	28	68	87	98	89	176	147
Northern	37	55	70	99	106	190	178
Western	65	64	78	75	98	131	176
Total	35	67	79	n.a.	n.a.	n.a.	n.a.

Sources: Ugandan *Demographic and Health Survey*, 1995 and 2000; and Brosio (2005).

Table A17. Ethiopia: Education and Health Care Outcomes, 1996–2004

	1996	1998	2000	2004
	Net primary school enrollment (percent)			
Whole country	21.0	28.7	33.8	37.8
Rural	13.7	22.5	28.0	32.8
Urban	68.9	72.9	74.5	77.2
	Incidence of consultation at medical clinics (in percent of ill persons)			
Whole country	49.1	43.4	41.1	47.9
Rural	46.4	40.5	38.3	44.7
Urban	70.7	68.3	66.6	73.4

Sources: Ethiopian *Welfare Monitoring Survey*, various years; and Ahmad, Brosio, and Mattina (2005).

Figure A1. Financial Development of Countries Classified by Growth
(Percent)

A. Liquid Liabilities as a Share of GDP

B. Ratio of Private Sector Credit to GDP
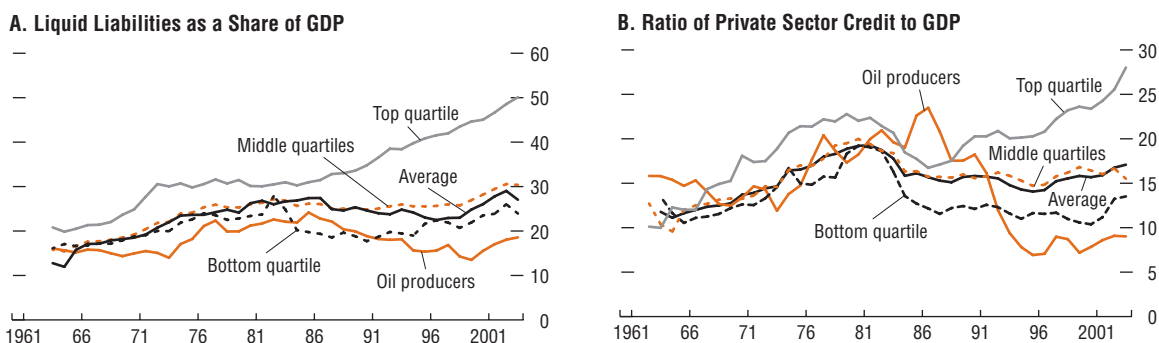
Source: IMF, World Economic Outlook database, 2004.
Note: The six oil-producing countries are classified separately. The remaining countries are classified by quartiles according to real growth over 1960–2003.

Figure A2. Sub-Saharan Africa: Financial Indicators

A. Regulatory Capital to Risk-Weighted Asset Ratios in 2000 and 2004
(Percent)
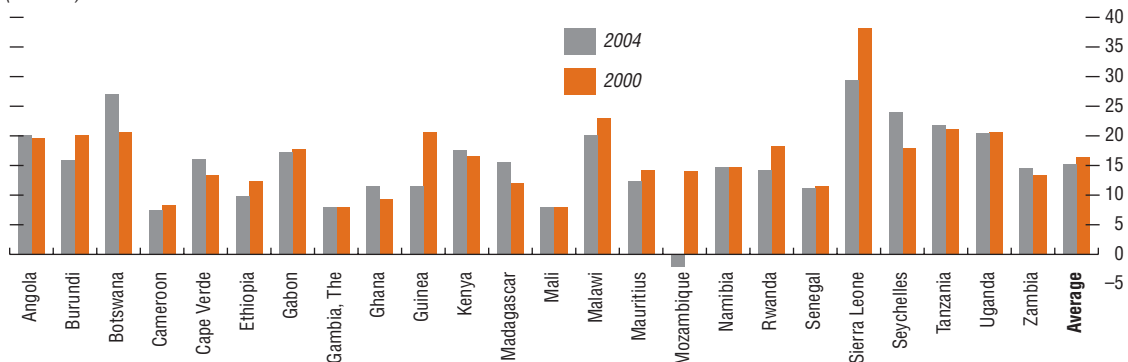
B. Liquid Assets as Ratio to Total Assets in 2000 and 2004
(Percent)

Source: IMF, Financial Sector Profiles.
Note: When data were not available for the indicated year, the closest available year was used.

Figure A3. Sub-Saharan Africa: Nonperforming Loans in 2000 and 2004
(Percent of total loans)
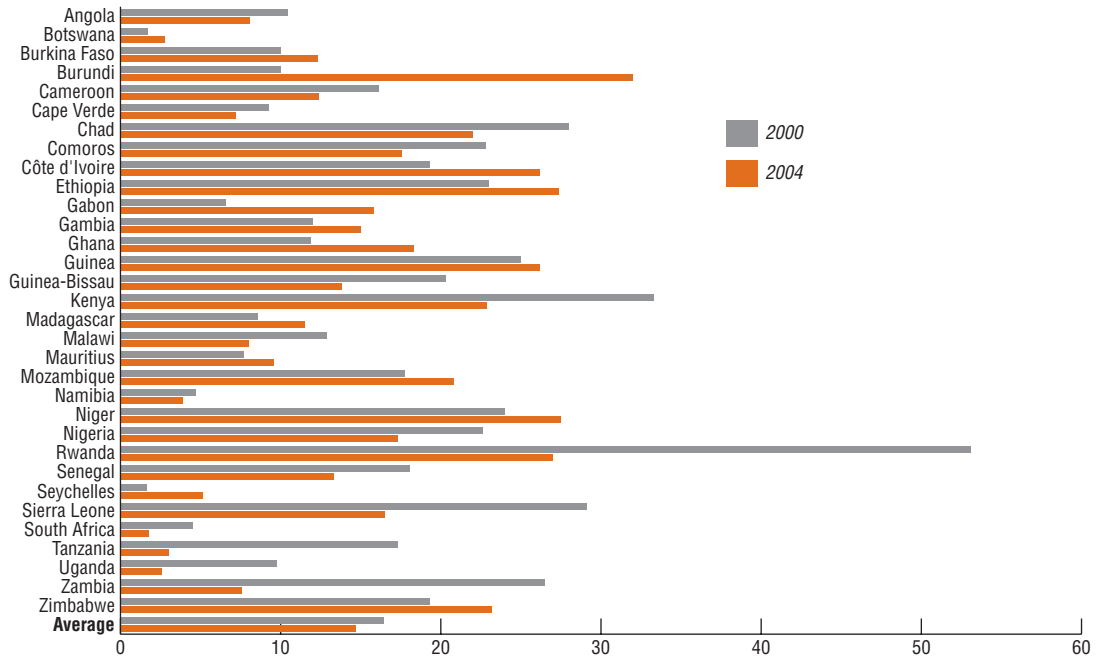
Source: IMF, Financial Sector Profiles.
Note: When data were not available for the indicated year, the closest available year was used.

Figure A4. Sub-Saharan Africa and Comparator Groups: Banking Sector Concentration Ratios
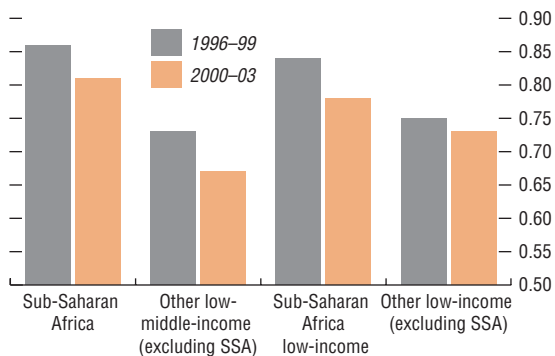
Source: World Bank, Financial Structure database.

Note: The income groupings are based on the World Bank rankings of gross national income (GNI) per capita in 2004. The groups are: low-income, GNI per capita of $825 or less; lower-middle income, GNI per capita of $826–$3,255. "Low-middle-income" refers to countries in these two groups; low-income refers to the former only. Sub-Saharan Africa has a small number of upper-middle-income countries (GNI per capita between $3,256 and $10,065), namely Botswana, Equatorial Guinea, Gabon, Mauritius, Seychelles, and South Africa. However, no upper-middle-income countries outside SSA are used in the comparisons.

Figure A5. Sub-Saharan Africa: Size of Economy and Number of Banks
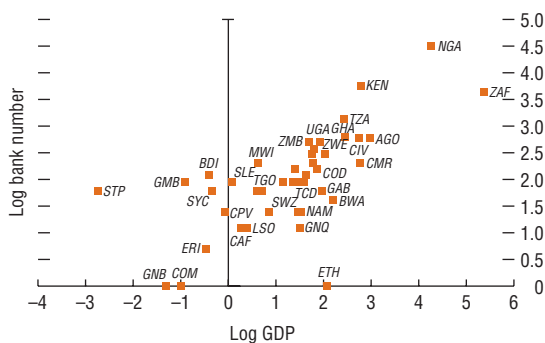
Sources: IMF, Financial Sector Profiles; and *World Economic Outlook.*

Figure A6. Sub-Saharan Africa and Comparator Groups: *Doing Business* **Costs of Debt and Contract Enforcement and Property Registration**

- Cost of debt enforcement (left scale)
- Enforcing contract debt (left scale)
- Registering property cost (right scale)

Percent of value

Sub-Saharan Africa
Other lower-income (excluding SSA)
Sub-Saharan low-income
Other low-income (excluding SSA)
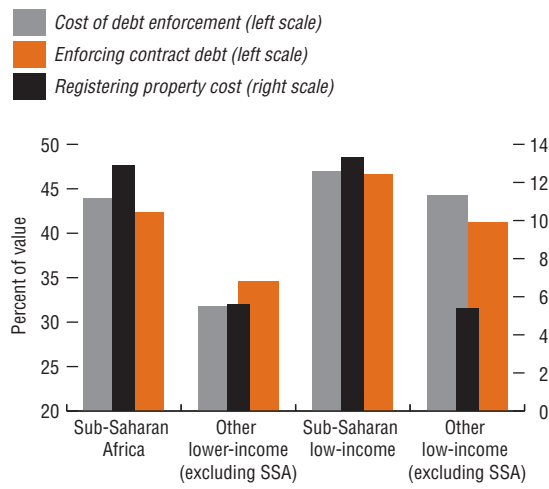
Figure A7. Sub-Saharan Africa: Obstacles to Growth of Private Enterprises
(Percent of companies indicating an obstacle as a serious constraint to growth of business)

Financial sector problems

- Sub-Saharan Africa
- Rest of the world

Factor markets
Government services
Infrastructure and informality
Stability and crime
Access to financing
Cost of financing
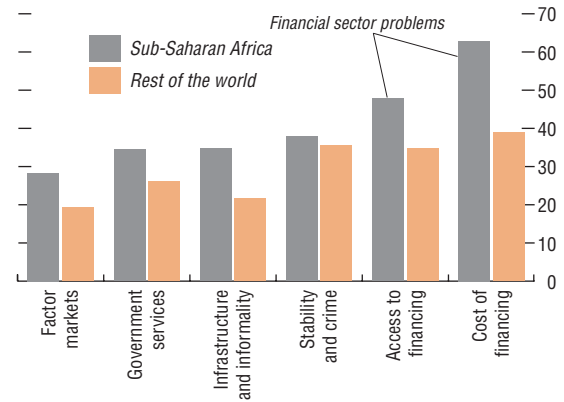
Source: World Bank, Investment Climate Surveys, 2005.

Figure A9. Sub-Saharan Africa and Comparator Groups: Funding Sources and Uses
(Percentage change from previous four-year period)

■ Sub-Saharan Africa   ■ Sub-Saharan Africa low-income
■ Other lower-income (excluding SSA)   ■ Other low-income (excluding SSA)

A. Change in Main Funding Sources

Figure A8. Sub-Saharan Africa and Comparator Groups: Real Lending Rates in Sub-Saharan Africa versus Rest of the World
(Percent)

Source: IMF, *International Financial Statistics.*

B. Change in Main Funding Uses
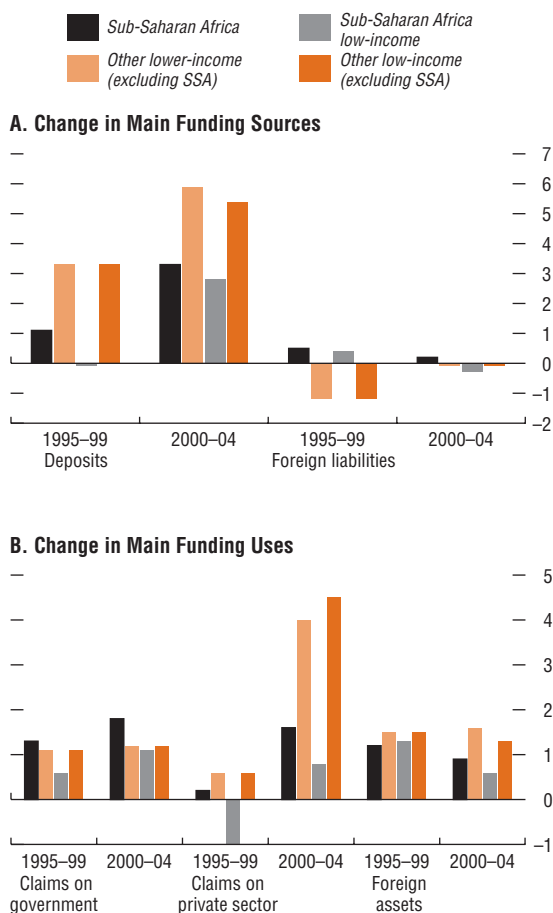
Source: IMF, *International Finance Statistics.*

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STATISTICAL APPENDIX

Estimates and projections used in this report are based on data provided by country desks as of March 29, 2006. Projections are staff estimates. The database is for 42 countries of the African Department; Eritrea and Liberia are excluded because of data limitations. The data are consistent with those underlying the *World Economic Outlook (WEO)*, April 2006 publication. Data should follow established international statistical methodologies to the extent possible; however, variable choice may be determined by country-specific definitions. The coverage and definitions of data are therefore not always comparable across countries. More broadly, many countries do not have the ability to compile high-quality data.

Data and Conventions

For Tables SA1, SA2, SA7, SA21, and SA22, country group composites are calculated as the arithmetic average of data for individual countries, weighted by GDP valued at purchasing power par-

ity (PPP) as a share of the total group GDP. The source of PPP weights is the WEO database.

For Tables SA3, SA4, SA6, SA8–12, SA14–20, and SA23–25, country group composites are calculated as the arithmetic average of data for individual countries, weighted by GDP in U.S. dollars at market exchange rates as a share of total group GDP.

For Table SA5, country group composites are calculated as the geometric average of data for individual countries, weighted by GDP valued at PPP as a share of the total group GDP. The source of PPP weights is the WEO database.

For Table SA13, country group composites are calculated as the geometric average of data for individual countries, weighted by GDP in U.S. dollars at market exchange rates as a share of total group GDP.

WAEMU is the West African Economic and Monetary Union. CEMAC is the Central African Economic and Monetary Community. SADC is the Southern African Development Community. COMESA is the Common Market for Eastern and Southern Africa.

List of Tables

Table SA1. Real GDP Growth
(In percent)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	3.0	14.4	3.4	11.1	15.7	26.0
Cameroon	4.6	4.0	4.1	3.6	2.6	4.2
Chad	4.4	8.4	14.9	29.5	5.6	3.0
Congo, Rep. of	2.4	5.4	0.3	3.6	9.2	5.2
Côte d'Ivoire	1.7	−1.4	−1.5	1.8	0.5	2.4
Equatorial Guinea	57.7	21.3	14.1	32.4	6.0	−1.1
Gabon	0.1	−0.3	2.4	1.4	2.9	2.9
Nigeria	2.7	1.5	10.7	6.0	6.9	6.2
Oil-importing countries						
Benin	5.2	4.5	3.9	3.1	3.5	4.0
Botswana	6.2	5.0	6.6	4.9	3.8	3.5
Burkina Faso	5.9	5.2	7.9	5.5	7.5	4.2
Burundi	1.1	4.4	−1.2	4.8	0.9	6.3
Cape Verde	8.3	5.3	4.7	4.4	6.3	7.0
Central African Republic	3.4	−0.6	−7.6	1.3	2.2	3.2
Comoros	2.4	2.3	2.1	1.9	2.0	3.0
Congo, Dem. Rep. of	−4.1	3.5	6.0	6.9	6.5	7.0
Ethiopia	3.9	—	−3.1	12.3	8.7	5.3
Gambia, The	6.0	−3.2	6.9	5.1	5.0	4.5
Ghana	4.2	4.5	5.2	5.8	5.8	6.0
Guinea	4.1	4.2	1.2	2.7	3.0	5.0
Guinea-Bissau	−1.1	−7.1	−0.6	2.2	2.0	2.6
Kenya	2.3	0.3	2.8	4.3	4.7	3.3
Lesotho	0.8	3.2	3.3	2.0	−0.7	2.3
Madagascar	4.6	−12.7	9.8	5.3	4.6	5.7
Malawi	1.6	2.1	3.9	5.1	1.9	8.3
Mali	5.1	4.3	7.2	2.3	5.4	5.4
Mauritius	5.6	2.5	2.9	4.2	3.5	2.7
Mozambique	9.3	8.2	7.9	7.5	7.7	7.9
Namibia	3.4	6.7	3.5	5.9	3.5	4.5
Niger	3.7	3.0	5.3	—	7.0	3.6
Rwanda	8.6	9.4	0.9	4.0	5.0	4.0
São Tomé and Príncipe	2.6	4.1	4.0	3.8	3.8	4.5
Senegal	4.3	1.1	6.5	6.2	6.2	5.0
Seychelles	3.7	1.3	−6.3	−2.0	−2.3	−1.4
Sierra Leone	−0.9	27.5	9.3	7.4	7.2	7.4
South Africa	2.5	3.7	3.0	4.5	4.9	4.3
Swaziland	2.8	2.9	2.4	2.1	2.2	1.2
Tanzania	4.4	7.2	7.1	6.7	6.9	5.8
Togo	1.0	4.1	1.9	3.0	0.8	4.2
Uganda	5.5	6.9	4.4	5.6	5.6	6.2
Zambia	2.4	3.3	5.1	5.4	5.1	6.0
Zimbabwe	−2.4	−4.4	−10.4	−3.8	−6.5	−4.7
Sub-Saharan Africa	**3.0**	**3.5**	**4.1**	**5.6**	**5.3**	**5.3**
Excluding Nigeria and South Africa	**3.5**	**3.7**	**3.4**	**6.5**	**5.3**	**6.0**
CFA franc zone	5.6	4.0	4.9	7.7	4.1	3.4
WAEMU	3.5	2.0	3.9	3.3	4.2	4.0
CEMAC	8.5	6.4	6.1	12.8	4.0	2.8
SADC	2.2	4.0	2.9	4.8	5.1	5.7
COMESA	1.9	2.7	1.4	6.2	5.8	7.4
Oil-exporting countries	4.1	4.2	7.8	8.3	6.8	8.0
Oil-importing countries	2.7	3.3	3.0	4.9	4.9	4.5
HIPC Initiative (completion point countries)	4.9	3.3	4.5	6.8	6.7	5.7
Fixed exchange rate regime	4.0	2.9	2.8	5.8	2.8	2.7
Floating exchange rate regime	2.8	3.6	4.4	5.6	6.0	6.0

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA2. Real Non-Oil GDP Growth
(In percent)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	8.8	9.7	14.3	8.0	1.6	15.5
Cameroon	5.5	4.9	4.9	4.9	3.5	4.0
Chad	4.0	6.8	6.6	2.0	6.9	5.0
Congo, Rep. of	1.7	8.5	5.4	5.2	5.5	6.3
Côte d'Ivoire	1.7	−1.7	−2.0	1.8	−0.2	0.7
Equatorial Guinea	12.8	8.5	13.2	11.9	9.9	15.3
Gabon	2.9	0.2	0.9	2.3	3.7	3.9
Nigeria	3.7	8.0	4.4	7.4	8.2	7.0
Oil-importing countries						
Benin	5.2	4.5	3.9	3.1	3.5	4.0
Botswana	5.7	5.8	5.6	5.0	4.6	4.2
Burkina Faso	5.9	5.2	7.9	5.5	7.5	4.2
Burundi	1.1	4.4	−1.2	4.8	0.9	6.3
Cape Verde	8.3	5.3	4.7	4.4	6.3	7.0
Central African Republic	3.4	−0.6	−7.6	1.3	2.2	3.2
Comoros	2.4	2.3	2.1	1.9	2.0	3.0
Congo, Dem. Rep. of	−4.1	3.5	6.0	6.9	6.5	7.0
Ethiopia	3.9	—	−3.1	12.3	8.7	5.3
Gambia, The	6.0	−3.2	6.9	5.1	5.0	4.5
Ghana	4.2	4.5	5.2	5.8	5.8	6.0
Guinea	4.1	4.2	1.2	2.7	3.0	5.0
Guinea-Bissau	1.5	−7.1	−0.6	2.2	2.0	2.6
Kenya	2.3	0.3	2.8	4.3	4.7	3.3
Lesotho	0.8	3.2	3.3	2.0	−0.7	2.3
Madagascar	4.6	−12.7	9.8	5.3	4.6	5.7
Malawi	1.6	2.1	3.9	5.1	1.9	8.3
Mali	5.1	4.3	7.2	2.2	6.4	6.7
Mauritius	5.6	2.5	2.9	4.2	3.5	2.7
Mozambique	9.3	8.2	7.9	7.5	7.7	7.9
Namibia	3.4	6.7	3.5	5.9	3.5	4.5
Niger	3.7	3.0	5.3	—	7.0	3.6
Rwanda	8.6	9.4	0.9	4.0	5.0	4.0
São Tomé and Príncipe	2.6	4.1	4.0	3.8	3.8	4.5
Senegal	4.3	1.1	6.5	6.2	6.2	5.0
Seychelles	3.7	1.3	−6.3	−2.0	−2.3	−1.4
Sierra Leone	−0.9	27.5	9.3	7.4	7.2	7.4
South Africa	2.5	3.7	3.0	4.5	4.9	4.3
Swaziland	2.8	2.9	2.4	2.1	2.2	1.2
Tanzania	4.4	7.2	7.1	6.7	6.9	5.8
Togo	1.0	4.1	1.9	3.0	0.8	4.2
Uganda	5.5	6.9	4.4	5.6	5.6	6.2
Zambia	2.4	3.3	5.1	5.4	5.1	6.0
Zimbabwe	−2.4	−4.4	−10.4	−3.8	−6.5	−4.7
Sub-Saharan Africa	**4.3**	**4.0**	**3.5**	**5.2**	**5.2**	**5.3**
Excluding Nigeria and South Africa	**5.6**	**3.3**	**3.8**	**5.3**	**4.6**	**5.7**
CFA franc zone	6.0	3.3	4.5	4.3	4.7	5.0
WAEMU	3.6	2.0	3.8	3.2	4.2	3.7
CEMAC	7.6	5.0	5.4	5.5	5.3	6.5
SADC	2.4	3.8	3.4	4.6	4.4	5.0
COMESA	2.4	2.2	2.6	5.8	4.1	5.9
Oil-exporting countries	7.2	6.5	5.4	6.5	5.9	7.7
Oil-importing countries	2.7	3.3	3.0	4.9	4.9	4.5
HIPC Initiative (completion point countries)	4.9	3.3	4.5	6.8	6.7	5.7
Fixed exchange rate regime	4.1	2.5	2.5	3.3	3.3	3.9
Floating exchange rate regime	3.1	4.4	3.8	5.7	5.6	5.6

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA3. Real Per Capita GDP Growth
(In percent)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	0.1	11.1	0.5	8.0	12.5	22.4
Cameroon	1.8	−0.2	1.3	0.8	−0.2	1.4
Chad	1.1	5.7	5.0	26.3	3.0	0.5
Congo, Rep. of	−0.5	2.4	−2.6	0.7	6.1	2.2
Côte d'Ivoire	−1.0	−4.2	−4.4	−1.2	−2.4	−0.5
Equatorial Guinea	46.1	17.9	10.8	28.6	3.0	−3.8
Gabon	−2.3	−2.7	−0.1	−1.1	0.4	0.4
Nigeria	−0.1	−1.2	7.7	3.2	4.3	3.6
Oil-importing countries						
Benin	2.3	−1.1	1.1	0.3	0.7	1.1
Botswana	4.8	4.5	6.4	5.0	4.2	4.2
Burkina Faso	3.3	1.1	4.5	2.2	5.0	1.9
Burundi	−1.0	0.7	−4.0	2.8	−1.1	4.2
Cape Verde	5.7	3.4	4.7	0.7	4.8	5.0
Central African Republic	1.4	−2.5	−9.4	−0.7	0.2	1.2
Comoros	0.8	0.2	—	−0.2	−0.7	0.3
Congo, Dem. Rep. of	−6.7	0.5	2.9	3.8	3.4	3.9
Ethiopia	0.8	−2.7	−5.7	9.2	5.8	2.4
Gambia, The	2.4	−5.7	4.2	2.4	2.3	1.9
Ghana	1.6	1.9	2.6	3.2	3.2	3.3
Guinea	1.4	1.1	−2.3	0.1	−0.2	1.9
Guinea-Bissau	−5.8	−9.9	−3.6	−0.8	−1.0	−0.4
Kenya	—	−1.8	0.7	2.2	2.8	1.4
Lesotho	−0.8	1.3	1.0	0.2	−2.5	0.5
Madagascar	1.5	−15.2	6.7	2.0	1.6	2.7
Malawi	−1.0	−1.7	1.6	2.8	−0.2	6.2
Mali	2.6	1.9	4.8	—	3.1	3.1
Mauritius	4.6	1.4	1.9	3.3	2.6	2.0
Mozambique	7.1	5.6	3.8	6.4	5.2	5.4
Namibia	0.3	3.6	0.5	2.9	0.5	1.4
Niger	0.4	−0.1	2.2	−3.0	3.8	0.4
Rwanda	3.2	7.1	−1.9	1.2	2.3	1.9
São Tomé and Príncipe	0.4	2.0	1.9	2.0	1.8	2.5
Senegal	1.8	−1.3	4.0	3.7	3.7	2.5
Seychelles	2.5	−0.6	−6.4	−1.6	−2.8	−1.8
Sierra Leone	−3.5	24.2	6.5	4.6	4.5	4.7
South Africa	1.0	2.5	1.9	3.5	4.0	3.4
Swaziland	0.6	1.1	1.3	1.5	2.0	1.1
Tanzania	1.9	5.1	5.0	4.4	4.6	3.9
Togo	−2.1	1.0	−1.2	−0.2	−2.3	1.0
Uganda	2.0	3.4	0.9	2.1	2.1	2.7
Zambia	0.2	0.9	2.7	2.9	2.6	3.5
Zimbabwe	−2.0	−4.1	−11.3	−3.6	−6.5	−4.7
Sub-Saharan Africa	**0.9**	**1.4**	**2.0**	**3.7**	**3.4**	**3.4**
Excluding Nigeria and South Africa	**1.0**	**1.1**	**0.6**	**4.0**	**2.8**	**3.5**
CFA franc zone	2.5	0.6	1.7	4.8	1.4	0.7
WAEMU	0.8	−1.1	1.0	0.4	1.5	1.3
CEMAC	4.9	2.9	2.4	9.8	1.3	0.1
SADC	0.6	2.6	1.5	3.5	3.8	4.4
COMESA	−0.5	0.3	−1.1	3.7	3.3	4.9
Oil-exporting countries	1.1	1.2	4.6	5.3	4.0	5.2
Oil-importing countries	0.8	1.5	1.2	3.2	3.2	2.9
HIPC Initiative (completion point countries)	2.1	0.5	1.6	4.1	3.9	2.9
Fixed exchange rate regime	1.7	0.4	0.2	3.5	0.6	0.5
Floating exchange rate regime	0.7	1.7	2.4	3.7	4.1	4.1

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA4. Real Per Capita GDP
(In U.S. dollars, at 2000 prices, using 2000 exchange rates)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	688	763	767	828	931	1,139
Cameroon	646	665	673	679	677	687
Chad	196	212	222	281	289	290
Congo, Rep. of	1,101	1,143	1,114	1,121	1,190	1,216
Côte d'Ivoire	662	591	565	558	544	541
Equatorial Guinea	1,283	2,439	2,704	3,478	3,581	3,443
Gabon	4,550	4,099	4,097	4,052	4,069	4,085
Nigeria	356	355	382	394	411	426
Oil-importing countries						
Benin	372	386	390	391	394	399
Botswana	3,184	3,656	3,891	4,086	4,258	4,435
Burkina Faso	229	244	255	261	274	279
Burundi	111	108	104	107	105	110
Cape Verde	1,165	1,331	1,393	1,402	1,470	1,543
Central African Republic	255	248	225	223	223	226
Comoros	375	379	379	378	375	376
Congo, Dem. Rep. of	92	79	82	85	87	91
Ethiopia	123	126	119	130	137	140
Gambia, The	309	308	321	329	336	343
Ghana	266	280	287	296	306	316
Guinea	389	398	389	390	389	396
Guinea-Bissau	171	139	134	133	131	131
Kenya	414	410	413	423	434	441
Lesotho	400	397	401	402	392	394
Madagascar	247	218	233	238	241	248
Malawi	153	141	144	148	147	157
Mali	249	268	281	281	289	298
Mauritius	3,630	4,038	4,116	4,251	4,363	4,449
Mozambique	221	261	271	288	303	319
Namibia	1,846	1,912	1,921	1,976	1,986	2,014
Niger	173	174	177	172	178	179
Rwanda	236	258	253	256	262	267
São Tomé and Príncipe	312	325	331	338	344	352
Senegal	428	439	456	473	491	503
Seychelles	7,393	7,359	6,888	6,775	6,586	6,468
Sierra Leone	143	189	202	211	220	231
South Africa	2,944	3,110	3,170	3,280	3,409	3,525
Swaziland	1,337	1,359	1,377	1,397	1,425	1,441
Tanzania	266	294	309	322	337	350
Togo	282	273	269	269	263	266
Uganda	255	274	276	282	288	296
Zambia	313	325	334	343	352	365
Zimbabwe	733	651	577	556	520	496
Sub-Saharan Africa	**530**	**538**	**546**	**560**	**576**	**592**
Excluding Nigeria and South Africa	**334**	**339**	**341**	**351**	**360**	**372**
CFA franc zone	468	472	475	487	493	497
WAEMU	365	356	357	358	361	365
CEMAC	705	739	741	781	793	798
SADC	932	959	966	993	1,024	1,060
COMESA	281	278	275	284	293	308
Oil-exporting countries	468	473	491	510	530	556
Oil-importing countries	557	566	570	583	597	609
HIPC Initiative (completion point countries)	222	234	239	248	257	265
Fixed exchange rate regime	562	562	559	570	573	576
Floating exchange rate regime	522	532	542	558	577	597

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA5. Consumer Prices
(Annual average percent change)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	211.0	108.9	98.3	43.6	23.0	13.0
Cameroon	2.9	6.3	0.6	0.3	2.0	2.6
Chad	3.5	5.2	−1.8	−5.4	7.9	3.0
Congo, Rep. of	3.8	3.1	1.5	3.6	2.0	2.5
Côte d'Ivoire	3.3	3.1	3.3	1.5	3.9	2.8
Equatorial Guinea	5.0	7.6	7.8	3.8	6.8	5.5
Gabon	1.7	0.2	2.1	0.4	0.1	1.0
Nigeria	10.0	13.7	14.0	15.0	17.9	9.4
Oil-importing countries						
Benin	3.6	2.4	1.5	0.9	5.5	3.0
Botswana	7.7	8.0	9.3	6.9	8.6	8.9
Burkina Faso	2.1	2.3	2.0	−0.4	6.3	2.1
Burundi	16.1	−1.3	10.7	8.0	13.6	3.1
Cape Verde	3.7	1.9	1.2	−1.9	0.4	2.1
Central African Republic	1.1	2.3	4.4	−2.2	3.0	2.3
Comoros	3.1	3.5	3.8	4.5	4.9	4.4
Congo, Dem. Rep. of	284.1	25.3	12.8	4.0	21.4	9.3
Ethiopia	0.6	−7.2	15.1	8.6	6.8	10.8
Gambia, The	2.6	8.6	17.0	14.2	4.3	4.0
Ghana	22.9	14.8	26.7	12.6	15.1	8.8
Guinea	4.7	3.0	12.9	17.5	31.4	24.1
Guinea-Bissau	13.4	3.3	−3.5	0.8	3.4	3.1
Kenya	8.0	2.0	9.8	11.6	10.3	11.5
Lesotho	7.6	11.6	7.7	5.2	3.7	5.0
Madagascar	7.3	16.2	−1.1	14.0	18.4	9.5
Malawi	28.1	14.9	9.6	11.6	12.3	9.0
Mali	1.3	5.0	−1.3	−2.8	5.0	−1.5
Mauritius	6.0	6.3	5.1	4.1	5.6	7.1
Mozambique	6.3	16.8	13.4	12.6	7.2	7.5
Namibia	8.4	11.3	7.2	4.1	2.4	5.1
Niger	2.4	2.7	−1.8	0.4	7.8	0.3
Rwanda	4.7	2.0	7.4	12.0	9.2	5.5
São Tomé and Príncipe	28.5	9.2	9.6	12.8	16.2	14.8
Senegal	1.5	2.3	—	0.5	1.8	2.6
Seychelles	4.4	0.2	3.2	3.9	1.0	−0.7
Sierra Leone	17.3	−3.7	7.5	14.2	12.5	11.7
South Africa	6.4	9.2	5.8	1.4	3.4	4.5
Swaziland	7.2	11.7	7.4	3.4	4.8	5.1
Tanzania	9.8	4.6	4.5	4.3	4.6	5.2
Togo	2.4	3.1	−0.9	0.4	6.8	2.9
Uganda	4.8	−2.0	5.7	5.0	8.0	6.5
Zambia	24.7	22.2	21.4	18.0	18.3	13.3
Zimbabwe	47.4	133.2	365.0	350.0	237.8	850.4
Sub-Saharan Africa	**15.1**	**12.5**	**13.8**	**9.8**	**10.8**	**11.0**
Excluding Nigeria and South Africa	**24.1**	**15.1**	**20.6**	**15.5**	**15.1**	**16.6**
CFA franc zone	2.7	4.0	1.3	0.2	4.2	2.4
WAEMU	2.6	3.0	0.8	0.2	4.8	1.8
CEMAC	2.9	5.2	1.9	0.2	3.6	3.1
SADC	21.6	18.0	17.4	10.9	10.6	13.9
COMESA	42.6	24.0	35.9	27.7	23.3	28.7
Oil-exporting countries	19.9	18.7	16.9	12.5	13.3	7.7
Oil-importing countries	13.9	10.9	12.9	9.0	10.0	12.0
HIPC Initiative (completion point countries)	6.9	4.0	9.8	6.8	8.4	6.6
Fixed exchange rate regime	10.1	18.2	24.7	20.6	18.5	28.6
Floating exchange rate regime	16.4	11.2	11.3	7.2	9.0	7.2

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA6. Total Investment
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	23.3	13.3	12.8	9.2	12.6	17.5
Cameroon	18.1	19.8	17.5	18.9	19.7	21.5
Chad	23.3	60.9	57.1	26.5	18.9	14.7
Congo, Rep. of	24.8	23.3	25.7	24.2	22.3	24.2
Côte d'Ivoire	12.6	10.1	10.1	10.8	10.5	11.4
Equatorial Guinea	78.4	31.8	60.9	45.9	33.4	23.4
Gabon	28.4	24.4	23.9	24.0	21.4	20.5
Nigeria	23.1	26.2	23.9	22.4	20.9	21.1
Oil-importing countries						
Benin	19.6	17.2	19.6	19.0	19.2	19.9
Botswana	25.5	27.1	28.9	28.1	28.5	30.5
Burkina Faso	20.2	17.5	17.0	18.4	19.7	19.5
Burundi	6.2	6.4	10.6	13.3	13.0	14.1
Cape Verde	34.3	35.8	31.0	34.2	38.4	42.4
Central African Republic	9.6	9.0	6.0	6.1	7.2	8.3
Comoros	12.4	12.2	11.6	10.2	9.7	12.9
Congo, Dem. Rep. of	15.8	9.0	12.2	12.8	14.2	16.7
Ethiopia	20.6	23.6	22.7	21.3	26.3	28.0
Gambia, The	19.8	21.2	19.2	27.4	24.0	25.6
Ghana	24.0	19.7	22.9	28.4	29.5	30.0
Guinea	19.0	13.4	10.2	11.2	12.4	13.9
Guinea-Bissau	15.5	9.6	12.9	12.8	10.6	24.3
Kenya	13.7	12.0	13.1	17.2	18.3	18.9
Lesotho	46.1	42.9	40.4	38.1	35.6	36.3
Madagascar	15.3	14.3	17.9	24.3	22.9	23.7
Malawi	13.4	10.4	10.8	14.4	13.7	15.7
Mali	21.9	18.6	21.1	20.7	23.1	23.5
Mauritius	25.5	21.6	22.8	23.9	23.3	21.8
Mozambique	27.9	29.8	25.9	20.7	22.1	23.6
Namibia	22.4	19.7	29.8	25.5	25.6	26.0
Niger	11.4	14.2	14.2	15.8	16.4	17.9
Rwanda	16.4	16.9	18.4	20.5	21.4	21.9
São Tomé and Príncipe	39.4	32.5	36.1	35.2	36.0	42.2
Senegal	18.5	16.7	20.7	23.4	23.3	23.5
Seychelles	29.1	24.2	9.0	9.8	12.7	14.5
Sierra Leone	2.2	10.1	13.9	10.6	16.4	15.6
South Africa	16.2	16.1	16.9	17.5	17.2	17.3
Swaziland	19.8	19.8	18.0	18.7	19.1	18.0
Tanzania	16.2	19.1	18.6	18.4	18.8	19.4
Togo	14.0	18.2	18.8	18.8	19.6	20.8
Uganda	18.3	19.4	20.5	22.5	22.7	23.6
Zambia	17.4	22.0	25.6	25.4	22.5	19.3
Zimbabwe	15.5	−8.8	−13.0	5.1	4.5	4.8
Sub-Saharan Africa	**18.4**	**16.3**	**18.4**	**19.0**	**18.9**	**19.3**
Excluding Nigeria and South Africa	**19.1**	**13.8**	**17.9**	**19.4**	**19.8**	**20.6**
CFA franc zone	19.3	19.2	20.7	20.2	19.5	19.3
WAEMU	15.9	14.3	15.7	16.6	17.1	17.9
CEMAC	23.7	25.2	26.9	24.2	21.9	20.7
SADC	17.4	12.9	16.5	17.6	17.5	18.1
COMESA	17.8	8.0	13.7	17.1	18.2	19.9
Oil-exporting countries	21.8	22.6	21.9	19.9	18.9	19.5
Oil-importing countries	17.3	13.9	17.0	18.7	18.8	19.2
HIPC Initiative (completion point countries)	19.7	19.6	20.5	21.6	22.9	23.8
Fixed exchange rate regime	19.8	11.0	18.2	20.7	20.2	20.6
Floating exchange rate regime	18.1	18.3	18.4	18.5	18.5	19.0

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA7. Domestic Saving
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	24.4	25.2	19.4	24.5	28.4	37.7
Cameroon	19.1	19.0	17.8	18.5	19.6	21.2
Chad	5.3	−40.6	22.1	32.1	38.0	39.9
Congo, Rep. of	44.0	50.0	51.3	51.4	59.4	61.0
Côte d'Ivoire	20.1	26.2	20.5	20.5	18.3	23.9
Equatorial Guinea	61.3	80.7	81.6	86.5	89.3	90.2
Gabon	49.8	43.5	48.0	48.3	55.3	60.8
Nigeria	29.8	25.3	32.1	39.5	42.1	41.6
Oil-importing countries						
Benin	7.8	3.3	6.7	6.7	8.5	7.5
Botswana	39.7	38.3	37.8	37.5	39.3	40.3
Burkina Faso	5.4	4.2	4.1	7.3	7.0	6.9
Burundi	−4.4	−11.4	−8.9	−8.7	−14.4	−15.6
Cape Verde	−4.9	−7.0	−6.5	−1.6	3.2	5.3
Central African Republic	4.7	3.7	0.3	−0.5	0.6	1.9
Comoros	−6.1	1.8	1.3	−1.5	−3.5	−1.4
Congo, Dem. Rep. of	17.4	4.0	5.0	3.9	6.5	7.0
Ethiopia	10.2	8.7	7.5	4.1	3.6	7.5
Gambia, The	11.9	12.9	9.9	9.8	7.1	10.7
Ghana	6.2	7.4	10.9	7.3	6.9	7.0
Guinea	15.2	9.5	7.8	7.1	10.3	11.4
Guinea-Bissau	−7.0	−11.8	−1.3	−5.0	−1.4	−6.0
Kenya	6.2	4.9	6.2	8.0	4.6	3.7
Lesotho	−20.2	−15.2	−9.2	−8.3	−27.5	−23.6
Madagascar	8.4	7.7	8.9	7.8	6.7	8.9
Malawi	2.7	−11.0	−11.7	−10.0	−12.5	−6.4
Mali	12.3	18.5	14.0	13.3	13.5	17.6
Mauritius	23.3	24.4	24.3	23.2	20.3	18.0
Mozambique	10.2	11.0	10.1	12.3	12.0	15.0
Namibia	13.7	14.9	23.3	22.9	18.9	20.4
Niger	3.5	5.3	4.9	5.6	4.8	6.2
Rwanda	−0.6	—	−0.8	2.2	−0.4	−0.9
São Tomé and Príncipe	−16.4	−18.0	−19.0	−22.1	−21.8	−17.2
Senegal	11.0	5.6	7.7	9.8	9.1	9.3
Seychelles	15.8	23.0	20.2	18.0	2.4	18.3
Sierra Leone	−8.7	−9.4	−7.4	−5.0	−2.3	−0.2
South Africa	18.4	19.8	18.2	17.5	15.7	16.0
Swaziland	2.1	19.5	17.6	15.1	11.8	11.3
Tanzania	5.8	11.8	12.0	11.4	8.4	6.2
Togo	0.3	4.0	3.4	4.2	2.3	4.4
Uganda	7.6	4.9	6.3	9.3	9.6	9.1
Zambia	6.4	8.7	12.9	23.0	19.8	17.2
Zimbabwe	13.3	−12.5	−21.1	−3.7	−6.3	4.6
Sub-Saharan Africa	**18.1**	**15.4**	**18.1**	**20.4**	**20.8**	**22.1**
Excluding Nigeria and South Africa	**14.5**	**10.0**	**13.9**	**17.3**	**18.5**	**21.5**
CFA franc zone	20.2	20.4	21.8	24.3	27.7	30.7
WAEMU	12.9	14.4	12.2	12.9	11.8	14.4
CEMAC	29.8	27.7	33.6	37.3	43.8	46.6
SADC	17.5	13.8	16.2	17.6	16.5	18.2
COMESA	11.5	3.1	7.3	12.7	13.0	17.7
Oil-exporting countries	28.4	26.3	29.9	35.1	38.4	40.8
Oil-importing countries	14.6	11.3	13.7	14.8	13.2	13.6
HIPC Initiative (completion point countries)	8.1	8.4	8.9	8.7	8.0	8.8
Fixed exchange rate regime	19.1	10.2	17.6	23.1	25.5	29.0
Floating exchange rate regime	17.8	17.4	18.3	19.7	19.6	20.5

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA8. Overall Fiscal Balance, Including Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	−14.4	−6.5	−6.5	1.3	4.3	5.4
Cameroon	−0.2	0.8	1.2	−0.5	3.5	1.2
Chad	−4.9	−6.0	−6.5	−3.1	−1.5	−1.6
Congo, Rep. of	−6.9	−8.1	0.4	3.9	19.0	19.0
Côte d'Ivoire	−1.5	−1.3	−2.8	−1.6	−1.9	−0.8
Equatorial Guinea	5.0	11.5	−1.7	9.9	23.4	27.7
Gabon	0.7	3.5	7.4	7.4	8.0	11.8
Nigeria	−2.8	−4.2	−1.3	7.7	9.9	17.5
Oil-importing countries						
Benin	0.2	−2.3	−2.2	−1.1	−2.2	−2.4
Botswana	1.5	−4.0	−1.3	1.8	0.1	−1.3
Burkina Faso	−3.1	−4.8	−2.9	−4.2	−3.9	−4.2
Burundi	−4.8	−1.4	−5.9	−4.3	−7.0	0.2
Cape Verde	−10.6	−2.6	−3.5	−0.2	−2.9	−3.9
Central African Republic	−0.9	−1.2	−3.1	−2.2	−2.5	−1.3
Comoros	−2.9	−5.1	−4.1	−1.6	−0.1	−1.9
Congo, Dem. Rep. of	−5.0	−2.7	−4.7	−4.1	−3.1	−2.4
Ethiopia	−5.6	−7.7	−7.0	−3.1	−4.9	−5.8
Gambia, The	−5.5	−4.6	−4.7	−5.7	−6.1	−4.6
Ghana	−8.4	−4.9	−3.3	−3.1	−1.3	−2.0
Guinea	−2.8	−4.4	−6.1	−4.9	−0.8	0.5
Guinea-Bissau	−12.5	−12.0	−15.6	−10.1	−9.0	−17.1
Kenya	−0.9	−3.2	−1.7	−0.1	−1.8	−3.4
Lesotho	−3.8	−4.3	0.8	9.1	2.0	−0.8
Madagascar	−3.7	−5.5	−4.2	−4.9	−5.4	−4.2
Malawi	−5.7	−11.6	−6.5	−6.5	−5.3	−1.8
Mali	−3.4	−3.6	−1.3	−2.6	−4.1	−3.4
Mauritius	−4.8	−6.1	−6.2	−5.4	−5.0	−4.9
Mozambique	−3.6	−7.2	−4.1	−4.3	−5.7	−3.8
Namibia	−3.2	−3.5	−6.5	−4.9	−3.8	−3.5
Niger	−3.6	−2.8	−2.7	−3.4	−4.1	−4.9
Rwanda	−2.0	−1.7	−2.3	−0.2	1.2	−2.2
São Tomé and Príncipe	−26.0	−16.4	−17.0	−26.6	56.9	59.6
Senegal	−0.6	−0.6	−1.7	−3.1	−3.4	−4.1
Seychelles	−10.6	−18.7	2.6	−1.5	0.7	−0.4
Sierra Leone	−9.0	−8.3	−6.7	−3.5	−1.9	−0.5
South Africa	−2.4	−1.2	−2.0	−1.7	−0.8	−1.4
Swaziland	−0.5	−4.2	−3.1	−2.8	−4.2	−5.6
Tanzania	−1.0	−1.0	−1.4	−3.0	−3.3	−6.3
Togo	−2.8	−0.4	2.4	0.9	−0.8	−2.9
Uganda	−3.0	−5.3	−4.3	−1.6	−0.3	−2.0
Zambia	−4.4	−5.1	−6.0	−3.0	−2.3	−2.5
Zimbabwe	−8.7	−2.7	−0.2	−7.6	−6.1	−3.3
Sub-Saharan Africa	**−3.0**	**−2.7**	**−2.2**	**−0.3**	**1.2**	**2.1**
Excluding Nigeria and South Africa	**−3.5**	**−3.3**	**−2.7**	**−1.4**	**0.1**	**0.3**
CFA franc zone	−1.3	−0.9	−0.7	−0.1	2.8	3.3
WAEMU	−1.9	−2.0	−2.2	−2.3	−2.9	−2.8
CEMAC	−0.8	0.5	1.2	2.5	8.6	9.3
SADC	−3.2	−2.4	−2.5	−1.8	−0.8	−1.0
COMESA	−5.2	−4.5	−4.2	−2.2	−1.2	−0.7
Oil-exporting countries	−3.1	−2.9	−1.4	4.4	7.6	11.5
Oil-importing countries	−3.0	−2.7	−2.5	−2.1	−1.6	−2.2
HIPC Initiative (completion point countries)	−3.5	−4.1	−3.3	−3.1	−3.3	−4.1
Fixed exchange rate regime	−2.3	−2.0	−1.0	−0.5	1.7	2.1
Floating exchange rate regime	−3.1	−3.0	−2.6	−0.2	1.0	2.1

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA9. Overall Fiscal Balance, Excluding Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	−16.7	−6.5	−7.2	0.8	4.0	4.5
Cameroon	−0.4	−0.5	0.5	−0.8	3.0	0.7
Chad	−10.2	−12.2	−14.4	−6.1	−4.2	−4.0
Congo, Rep. of	−7.2	−8.3	−0.1	3.6	19.0	18.5
Côte d'Ivoire	−2.0	−1.8	−3.4	−2.5	−2.9	−1.9
Equatorial Guinea	4.6	11.5	−1.8	9.9	23.3	27.6
Gabon	0.7	3.4	7.4	7.4	8.0	11.7
Nigeria	−2.8	−4.2	−1.3	7.7	9.9	17.5
Oil-importing countries						
Benin	−2.8	−3.3	−4.2	−3.7	−4.8	−4.7
Botswana	1.1	−4.2	−1.4	1.4	−0.3	−1.7
Burkina Faso	−9.9	−10.0	−8.2	−8.5	−8.0	−9.0
Burundi	−7.1	−5.7	−13.8	−19.7	−20.2	−19.4
Cape Verde	−19.3	−11.3	−9.1	−11.0	−11.5	−11.6
Central African Republic	−7.0	−5.0	−4.6	−5.5	−4.6	−3.3
Comoros	−9.1	−9.3	−6.4	−4.4	−3.7	−6.5
Congo, Dem. Rep. of	−5.0	−3.1	−6.7	−6.1	−8.3	−11.9
Ethiopia	−8.6	−11.6	−13.7	−7.9	−9.6	−10.5
Gambia, The	−7.3	−9.1	−7.2	−10.2	−7.8	−6.4
Ghana	−11.2	−8.0	−8.0	−9.5	−6.8	−6.6
Guinea	−5.6	−6.2	−8.9	−5.9	−1.5	−0.9
Guinea-Bissau	−22.3	−18.1	−23.4	−24.8	−17.2	−30.4
Kenya	−1.8	−3.9	−3.6	−1.3	−3.5	−5.6
Lesotho	−6.4	−8.3	−1.4	6.5	−1.2	−4.1
Madagascar	−7.7	−7.7	−9.3	−13.1	−10.8	−10.1
Malawi	−12.1	−17.4	−17.3	−20.7	−20.9	−17.9
Mali	−8.0	−7.3	−5.7	−6.6	−8.7	−8.9
Mauritius	−5.0	−6.3	−6.5	−5.7	−5.2	−5.2
Mozambique	−13.8	−17.5	−13.6	−11.8	−13.4	−12.9
Namibia	−3.4	−3.6	−6.6	−5.0	−4.1	−3.8
Niger	−8.3	−7.7	−7.5	−8.9	−9.2	−9.6
Rwanda	−9.1	−8.9	−10.3	−12.1	−13.3	−13.3
São Tomé and Príncipe	−47.6	−43.6	−49.5	−58.8	32.4	30.6
Senegal	−2.8	−2.4	−3.8	−5.2	−5.1	−6.0
Seychelles	−11.2	−18.8	2.6	−1.5	0.4	−0.5
Sierra Leone	−13.4	−16.5	−14.4	−12.5	−9.6	−9.5
South Africa	−2.4	−1.2	−2.0	−1.7	−0.8	−1.4
Swaziland	−1.3	−5.4	−4.1	−3.8	−4.9	−6.2
Tanzania	−4.5	−5.1	−7.2	−8.7	−10.8	−13.5
Togo	−3.8	−0.8	1.8	0.2	−1.6	−3.5
Uganda	−8.7	−12.3	−10.9	−11.1	−8.7	−8.8
Zambia	−10.7	−13.4	−13.0	−8.5	−8.1	−8.6
Zimbabwe	−9.7	−2.8	−0.4	−7.7	−6.1	−3.4
Sub-Saharan Africa	**−4.1**	**−3.8**	**−3.5**	**−1.5**	**−0.1**	**0.7**
Excluding Nigeria and South Africa	**−5.9**	**−5.3**	**−5.5**	**−4.2**	**−2.8**	**−2.9**
CFA franc zone	−3.1	−2.6	−2.5	−1.7	1.3	1.7
WAEMU	−4.4	−4.0	−4.6	−4.8	−5.3	−5.4
CEMAC	−1.6	−0.8	0.1	1.8	8.0	8.6
SADC	−4.0	−3.1	−3.3	−2.4	−1.7	−2.1
COMESA	−7.5	−6.1	−7.1	−5.2	−4.3	−4.2
Oil-exporting countries	−3.6	−3.3	−1.9	4.1	7.3	11.1
Oil-importing countries	−4.3	−4.0	−4.1	−3.7	−3.3	−4.0
HIPC Initiative (completion point countries)	−7.8	−8.4	−8.6	−8.6	−8.8	−9.4
Fixed exchange rate regime	−3.9	−3.0	−2.4	−1.9	0.3	0.6
Floating exchange rate regime	−4.1	−4.1	−3.8	−1.4	−0.2	0.7

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA10. Government Revenue, Excluding Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	42.6	43.4	37.5	37.9	41.9	42.6
Cameroon	15.2	15.2	15.9	15.2	17.2	17.6
Chad	7.7	8.0	7.9	8.6	10.2	10.2
Congo, Rep. of	26.9	27.2	29.1	32.2	39.7	40.9
Côte d'Ivoire	17.6	17.8	16.9	17.6	17.3	18.3
Equatorial Guinea	22.7	28.5	28.7	34.4	42.9	47.0
Gabon	32.7	31.5	29.7	28.8	28.3	28.5
Nigeria	19.8	22.9	21.0	26.7	28.0	34.9
Oil-importing countries						
Benin	15.0	16.3	16.6	16.4	16.1	16.5
Botswana	42.7	40.1	40.7	40.6	40.5	40.6
Burkina Faso	11.8	11.4	12.1	12.7	12.6	13.4
Burundi	17.2	20.3	21.1	20.1	19.5	19.1
Cape Verde	20.3	22.6	21.3	22.8	23.5	23.5
Central African Republic	8.9	10.8	7.7	8.1	8.2	8.7
Comoros	12.2	16.7	16.1	15.3	15.0	14.8
Congo, Dem. Rep. of	5.4	7.9	7.7	9.6	11.4	12.0
Ethiopia	14.9	16.6	16.4	16.6	16.0	18.1
Gambia, The	17.8	16.3	15.7	20.9	20.3	21.8
Ghana	17.6	17.9	20.8	23.8	24.9	23.5
Guinea	11.1	12.0	10.5	10.4	12.9	13.3
Guinea-Bissau	14.8	15.3	15.2	17.2	19.7	20.6
Kenya	20.3	19.6	19.7	21.4	21.2	21.0
Lesotho	43.0	40.1	41.6	49.8	54.3	45.3
Madagascar	10.6	8.0	10.3	12.0	10.8	11.6
Malawi	16.9	17.7	22.0	23.2	25.6	23.8
Mali	13.5	15.9	16.4	17.4	17.6	18.0
Mauritius	19.7	18.3	20.0	19.9	19.7	19.6
Mozambique	12.0	12.4	12.9	12.6	13.7	14.4
Namibia	32.4	30.5	29.3	29.6	30.8	30.6
Niger	8.9	10.6	9.9	10.8	10.2	10.8
Rwanda	10.4	12.3	13.5	13.9	14.6	14.1
São Tomé and Príncipe	14.4	23.3	25.6	28.4	105.2	110.3
Senegal	17.2	19.1	19.3	19.3	20.2	20.0
Seychelles	42.6	40.0	49.3	49.1	50.4	51.4
Sierra Leone	8.9	12.1	12.4	12.3	12.2	12.6
South Africa	23.5	23.3	23.3	24.2	25.9	26.1
Swaziland	28.5	25.4	25.3	29.8	32.1	31.2
Tanzania	11.2	11.0	11.4	11.8	12.9	13.5
Togo	13.5	12.3	16.5	16.2	14.6	15.3
Uganda	11.3	12.2	12.2	12.6	12.9	12.9
Zambia	19.0	17.9	18.0	18.3	17.6	17.5
Zimbabwe	25.0	17.9	24.9	33.8	44.2	38.7
Sub-Saharan Africa	**21.3**	**21.1**	**21.6**	**23.4**	**25.1**	**26.5**
Excluding Nigeria and South Africa	**19.3**	**19.3**	**20.2**	**21.5**	**23.4**	**24.2**
CFA franc zone	17.5	18.1	18.1	18.7	20.7	21.6
WAEMU	15.5	16.2	16.1	16.6	16.5	17.1
CEMAC	20.2	20.5	20.4	21.1	25.0	26.1
SADC	23.7	22.7	23.8	24.9	26.9	27.3
COMESA	20.7	20.1	21.7	23.6	25.8	26.7
Oil-exporting countries	22.2	24.2	22.5	25.9	28.7	33.1
Oil-importing countries	20.8	20.0	21.2	22.4	23.6	23.6
HIPC Initiative (completion point countries)	13.4	13.9	14.7	15.6	15.9	16.3
Fixed exchange rate regime	21.7	20.1	21.9	22.7	24.5	24.6
Floating exchange rate regime	21.1	21.5	21.5	23.5	25.3	27.0

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA11. Government Expenditure
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	59.4	49.9	44.7	37.1	37.9	38.1
Cameroon	15.6	15.7	15.4	16.0	14.3	16.9
Chad	17.9	20.2	22.3	14.7	14.4	14.3
Congo, Rep. of	34.1	35.5	29.3	28.6	20.7	22.4
Côte d'Ivoire	19.7	19.6	20.4	20.1	20.2	20.2
Equatorial Guinea	18.1	17.0	30.5	24.5	19.6	19.4
Gabon	31.9	28.0	22.4	21.4	20.3	16.8
Nigeria	22.6	27.1	22.3	19.1	18.1	17.4
Oil-importing countries						
Benin	17.7	19.6	20.8	20.1	20.9	21.2
Botswana	41.7	44.3	42.1	39.1	40.8	42.3
Burkina Faso	21.6	21.4	20.3	21.2	20.6	22.4
Burundi	24.3	25.9	34.9	39.8	39.8	38.6
Cape Verde	39.5	33.9	30.4	33.8	35.0	35.1
Central African Republic	15.9	15.8	12.3	13.5	12.8	12.1
Comoros	21.3	26.0	22.5	19.7	18.8	21.4
Congo, Dem. Rep. of	10.5	11.0	14.4	15.6	19.7	23.8
Ethiopia	23.5	28.2	30.1	24.4	25.6	28.6
Gambia, The	25.2	25.4	22.9	31.2	28.1	28.2
Ghana	28.8	25.9	28.8	33.3	31.7	30.1
Guinea	16.7	18.3	19.4	16.3	14.4	14.3
Guinea-Bissau	37.1	33.4	38.6	42.0	37.0	51.0
Kenya	22.1	23.5	23.4	22.7	24.7	26.7
Lesotho	49.4	48.4	43.0	43.3	55.4	49.4
Madagascar	18.3	15.7	19.6	25.2	21.6	21.8
Malawi	29.1	35.1	39.3	43.9	46.5	41.7
Mali	21.6	23.2	22.2	24.0	26.3	26.9
Mauritius	24.7	24.6	26.5	25.7	25.0	24.8
Mozambique	25.8	30.0	26.5	24.4	27.1	27.3
Namibia	35.8	34.2	35.9	34.6	34.9	34.4
Niger	17.2	18.4	17.3	19.7	19.4	20.4
Rwanda	19.6	21.2	23.9	26.1	27.8	27.4
São Tomé and Príncipe	62.1	66.9	75.1	87.2	72.8	79.7
Senegal	20.0	21.6	23.1	24.5	25.3	26.0
Seychelles	53.8	58.7	46.7	50.7	50.0	51.9
Sierra Leone	22.3	28.6	26.8	24.8	21.8	22.1
South Africa	25.9	24.5	25.3	25.9	26.7	27.5
Swaziland	29.8	30.9	29.4	33.7	37.0	37.4
Tanzania	15.6	16.1	18.6	20.5	23.7	26.9
Togo	17.4	13.1	14.6	16.0	16.1	18.8
Uganda	20.0	24.5	23.1	23.8	21.6	21.8
Zambia	29.6	31.3	30.9	26.8	25.6	26.1
Zimbabwe	34.7	20.7	25.3	41.5	50.3	42.1
Sub-Saharan Africa	**25.3**	**24.9**	**25.1**	**24.9**	**25.2**	**25.8**
Excluding Nigeria and South Africa	**25.3**	**24.6**	**25.7**	**25.6**	**26.2**	**27.1**
CFA franc zone	20.6	20.7	20.6	20.4	19.5	20.0
WAEMU	19.8	20.2	20.7	21.4	21.8	22.5
CEMAC	21.7	21.2	20.4	19.3	17.1	17.5
SADC	27.6	25.8	27.1	27.3	28.6	29.4
COMESA	28.2	26.2	28.8	28.8	30.1	30.9
Oil-exporting countries	25.8	27.5	24.4	21.8	21.4	22.1
Oil-importing countries	25.1	24.0	25.4	26.0	26.9	27.6
HIPC Initiative (completion point countries)	21.1	22.3	23.3	24.2	24.7	25.8
Fixed exchange rate regime	25.5	23.2	24.3	24.6	24.2	24.0
Floating exchange rate regime	25.3	25.6	25.3	24.9	25.5	26.3

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA12. Broad Money
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	19.0	22.8	17.5	16.5	15.6	14.9
Cameroon	13.2	18.7	17.7	18.1	17.5	18.0
Chad	11.7	13.7	11.8	8.3	8.3	9.8
Congo, Rep. of	14.4	13.9	13.7	14.6	11.7	12.1
Côte d'Ivoire	22.4	30.1	22.1	23.7	24.4	24.4
Equatorial Guinea	7.5	10.3	11.5	9.9	10.2	11.9
Gabon	13.6	15.9	15.5	15.6	15.9	16.1
Nigeria	20.1	28.4	26.4	23.6	20.3	21.1
Oil-importing countries						
Benin	27.8	29.1	24.0	22.1	21.4	21.4
Botswana	27.9	27.7	28.7	30.2	30.3	30.3
Burkina Faso	21.5	19.2	20.4	23.0	21.9	21.9
Burundi	19.0	24.1	27.0	27.7	29.6	31.8
Cape Verde	55.2	57.3	57.6	63.4	64.7	65.4
Central African Republic	17.0	14.4	13.9	16.0	15.4	15.4
Comoros	19.7	24.9	22.9	20.3	18.9	18.9
Congo, Dem. Rep. of	6.2	4.7	5.9	8.3	8.0	8.8
Ethiopia	34.4	44.1	44.8	40.3	41.8	42.7
Gambia, The	32.1	43.5	45.8	45.1	45.1	45.1
Ghana	24.8	31.1	32.0	33.4	33.9	34.5
Guinea	10.3	12.6	15.0	16.5	16.9	15.8
Guinea-Bissau	34.1	61.3	22.0	30.5	46.3	46.0
Kenya	38.2	39.0	39.5	40.2	38.5	37.9
Lesotho	32.1	29.0	27.9	28.2	29.3	29.8
Madagascar	18.3	23.3	21.9	21.6	18.8	18.9
Malawi	15.5	18.3	20.5	22.0	21.3	21.0
Mali	21.1	26.9	30.6	29.4	29.6	29.2
Mauritius	76.6	80.9	82.1	85.0	138.0	135.4
Mozambique	24.0	28.0	28.3	25.6	27.7	27.7
Namibia	38.8	37.8	40.3	42.9	46.3	48.3
Niger	8.2	9.0	12.2	14.5	14.2	14.2
Rwanda	16.9	17.6	18.5	17.8	17.5	17.9
São Tomé and Príncipe	32.2	40.0	50.0	47.1	49.9	48.8
Senegal	24.1	28.1	34.4	35.9	38.6	39.8
Seychelles	88.3	104.8	111.2	110.4	111.8	115.7
Sierra Leone	15.9	19.3	20.6	19.6	18.8	17.9
South Africa	58.3	61.2	64.3	65.9	72.0	72.4
Swaziland	24.2	20.7	20.6	21.6	22.5	25.4
Tanzania	14.1	14.1	14.6	15.1	17.3	19.8
Togo	24.3	23.5	26.7	29.9	29.5	29.9
Uganda	15.6	18.8	20.2	19.6	18.6	18.7
Zambia	20.1	22.3	21.8	22.4	19.3	18.5
Zimbabwe	36.5	37.2	58.7	43.8	86.3	80.2
Sub-Saharan Africa	**38.0**	**39.1**	**42.3**	**43.1**	**45.2**	**44.9**
Excluding Nigeria and South Africa	**24.5**	**28.3**	**27.9**	**26.5**	**28.0**	**27.1**
CFA franc zone	18.3	21.9	20.6	20.8	20.4	20.8
WAEMU	22.2	26.4	24.7	26.0	26.6	26.8
CEMAC	13.2	16.2	15.5	15.0	14.2	14.8
SADC	49.4	48.3	54.4	55.6	60.8	59.4
COMESA	30.3	33.6	35.0	31.8	34.5	31.4
Oil-exporting countries	18.6	24.9	22.1	20.4	18.4	18.6
Oil-importing countries	44.2	44.4	50.0	51.9	56.9	56.9
HIPC Initiative (completion point countries)	21.9	25.4	26.6	26.6	27.3	28.1
Fixed exchange rate regime	23.4	28.5	27.5	24.9	26.1	25.4
Floating exchange rate regime	42.0	43.4	46.7	48.0	50.1	49.6

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA13. Broad Money Growth
(In percent)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	270.9	158.1	67.5	49.8	45.5	30.5
Cameroon	13.6	29.5	−0.9	7.3	4.2	9.7
Chad	3.5	27.5	−3.1	3.3	26.7	37.3
Congo, Rep. of	10.5	13.1	−2.4	17.4	8.4	8.6
Côte d'Ivoire	6.0	30.8	−26.6	9.5	7.4	6.4
Equatorial Guinea	45.6	67.4	26.1	28.3	48.9	38.5
Gabon	7.8	7.3	−0.3	10.4	23.7	13.8
Nigeria	29.3	21.6	24.1	14.0	16.5	17.0
Oil-importing countries						
Benin	16.7	−3.8	−12.7	−5.0	5.8	6.5
Botswana	25.4	−1.1	15.5	16.0	13.6	13.2
Burkina Faso	5.6	2.9	16.3	22.9	6.0	6.9
Burundi	13.5	27.0	23.3	16.7	25.9	20.3
Cape Verde	5.8	12.9	9.8	14.3	8.6	10.5
Central African Republic	−2.3	−4.3	−8.0	14.2	1.2	6.0
Comoros	11.9	9.1	−1.1	−6.3	−2.6	7.2
Congo, Dem. Rep. of	264.6	30.2	48.3	60.0	26.4	25.1
Ethiopia	9.1	12.3	10.4	10.9	19.6	19.8
Gambia, The	19.9	35.3	43.4	18.3	9.4	8.7
Ghana	35.1	50.5	38.1	25.9	23.5	17.8
Guinea	14.1	19.2	35.3	37.0	36.9	17.1
Guinea-Bissau	36.8	24.2	−65.3	44.0	61.7	5.6
Kenya	5.4	10.0	11.5	13.4	9.1	10.4
Lesotho	10.3	2.7	5.3	6.2	3.1	5.9
Madagascar	11.0	44.1	6.3	18.5	8.6	17.4
Malawi	27.8	47.6	29.3	29.8	14.6	19.1
Mali	9.1	28.4	25.5	−2.4	6.5	6.2
Mauritius	12.0	13.0	11.7	14.4	76.6	5.6
Mozambique	19.7	21.5	18.7	5.9	25.0	16.0
Namibia	10.8	24.3	9.6	16.2	14.0	14.4
Niger	7.9	−0.4	42.2	20.3	12.3	3.6
Rwanda	14.7	11.4	15.2	12.1	10.7	12.3
São Tomé and Príncipe	36.3	26.9	41.8	7.4	26.1	16.1
Senegal	10.9	7.6	31.5	12.9	17.2	10.8
Seychelles	16.4	11.1	5.3	1.1	−0.1	1.0
Sierra Leone	28.5	30.1	26.2	18.9	16.6	15.4
South Africa	13.0	18.1	12.9	13.1	19.9	10.7
Swaziland	10.4	13.1	14.1	10.4	10.5	20.1
Tanzania	10.1	21.3	16.9	19.1	27.5	28.1
Togo	4.4	−2.1	11.4	18.3	3.4	8.8
Uganda	19.0	10.2	23.3	9.0	8.7	16.5
Zambia	32.1	31.5	23.4	30.2	8.6	14.3
Zimbabwe	48.3	164.8	413.5	222.6	522.4	742.3
Sub-Saharan Africa	**20.4**	**31.5**	**19.5**	**16.4**	**20.7**	**15.2**
Excluding Nigeria and South Africa	**25.1**	**43.3**	**24.1**	**20.6**	**23.0**	**19.0**
CFA franc zone	9.4	18.9	−0.3	10.6	12.9	12.3
WAEMU	8.1	15.5	−1.1	10.0	9.1	7.1
CEMAC	11.2	23.4	0.8	11.2	16.8	17.7
SADC	23.4	40.7	24.9	18.7	25.3	15.5
COMESA	40.8	67.8	48.1	30.9	32.2	24.3
Oil-exporting countries	32.1	34.9	14.7	17.2	20.2	19.0
Oil-importing countries	16.8	30.2	21.3	16.1	21.0	13.5
HIPC Initiative (completion point countries)	14.1	19.1	19.2	13.2	16.5	15.8
Fixed exchange rate regime	15.1	51.7	22.1	16.6	20.3	17.3
Floating exchange rate regime	21.9	24.2	18.7	16.4	20.9	14.7

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA14. Claims on Nonfinancial Private Sector
(In percent of broad money)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	20.8	22.9	32.2	35.2	35.2	33.8
Cameroon	61.3	55.4	61.0	56.9	59.7	58.1
Chad	51.9	42.0	53.8	49.3	45.7	36.6
Congo, Rep. of	59.9	21.6	27.1	24.3	24.4	24.4
Côte d'Ivoire	70.6	50.5	61.8	60.6	57.2	60.2
Equatorial Guinea	50.2	32.2	24.4	23.7	21.4	21.0
Gabon	80.5	83.1	75.5	62.1	52.5	49.8
Nigeria	63.5	58.3	59.7	66.1	64.9	62.5
Oil-importing countries						
Benin	31.7	39.4	60.1	66.1	70.0	82.6
Botswana	55.9	69.6	65.6	66.3	65.2	64.2
Burkina Faso	50.5	68.7	67.1	61.2	69.3	72.8
Burundi	90.9	110.7	94.2	84.7	63.9	74.4
Cape Verde	45.9	46.7	49.0	48.0	50.9	50.3
Central African Republic	35.0	47.1	51.2	50.0	49.1	48.1
Comoros	44.4	32.3	36.1	35.0	36.4	35.8
Congo, Dem. Rep. of	13.4	20.3	16.1	19.3	24.7	30.2
Ethiopia	50.9	41.1	34.3	34.5	45.7	48.7
Gambia, The	36.3	39.0	35.6	26.8	32.3	31.1
Ghana	53.7	48.1	48.9	49.2	57.5	60.4
Guinea	49.7	41.7	41.4	32.5	35.0	33.1
Guinea-Bissau	21.9	4.8	8.8	5.2	10.7	10.7
Kenya	72.9	61.3	58.9	64.6	65.4	67.7
Lesotho	57.2	23.3	25.7	26.3	26.7	27.7
Madagascar	49.8	40.6	40.6	47.4	53.0	55.9
Malawi	35.4	26.6	26.9	29.4	31.2	27.9
Mali	69.5	65.7	61.4	65.1	76.9	94.7
Mauritius	73.2	73.8	69.9	67.4	45.1	49.1
Mozambique	69.5	53.5	44.4	39.5	41.0	45.1
Namibia	98.7	121.3	123.6	128.2	131.2	133.4
Niger	53.0	55.6	42.8	43.3	42.4	42.6
Rwanda	55.4	60.7	60.5	59.5	60.1	62.7
São Tomé and Príncipe	19.4	21.4	29.6	59.6	66.5	68.6
Senegal	71.5	70.5	61.3	59.3	63.6	63.5
Seychelles	19.2	19.4	26.0	31.6	33.4	30.7
Sierra Leone	16.0	15.2	20.3	24.5	28.2	31.1
South Africa	110.8	98.3	103.7	104.4	104.2	102.4
Swaziland	58.0	65.1	75.7	89.3	95.0	89.3
Tanzania	30.9	36.1	42.2	52.0	51.5	54.4
Togo	64.9	53.2	62.2	54.9	59.4	57.1
Uganda	137.6	34.8	36.1	39.6	43.8	47.0
Zambia	51.4	43.0	33.7	38.4	47.4	49.3
Zimbabwe	87.2	71.7	84.8	63.9	31.3	26.1
Sub-Saharan Africa	**79.5**	**68.8**	**74.5**	**76.6**	**75.6**	**74.6**
Excluding Nigeria and South Africa	**58.2**	**53.5**	**53.4**	**52.2**	**52.0**	**52.6**
CFA franc zone	61.8	55.2	58.2	54.6	54.1	54.9
WAEMU	63.5	56.7	60.4	59.6	62.1	66.7
CEMAC	62.7	53.4	55.4	49.0	46.0	43.4
SADC	93.6	79.9	88.5	90.1	88.5	86.2
COMESA	63.9	54.9	52.2	51.5	50.5	50.7
Oil-exporting countries	60.6	52.0	55.6	56.6	54.4	51.7
Oil-importing countries	88.0	75.1	81.7	84.3	84.9	85.0
HIPC Initiative (completion point countries)	60.2	47.6	47.4	49.5	54.6	58.5
Fixed exchange rate regime	64.7	62.9	64.4	60.1	58.5	59.6
Floating exchange rate regime	85.9	71.2	77.5	81.0	80.0	78.2

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA15. Exports of Goods and Services
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	75.2	77.6	70.2	70.1	77.3	82.5
Cameroon	24.6	25.0	23.6	23.1	24.7	26.2
Chad	17.4	12.8	25.3	52.8	58.5	62.0
Congo, Rep. of	76.9	80.7	79.3	84.5	86.2	91.3
Côte d'Ivoire	40.6	49.6	45.7	48.1	47.8	55.5
Equatorial Guinea	100.0	102.8	100.3	100.6	106.6	111.9
Gabon	59.3	53.3	54.1	59.1	64.0	67.5
Nigeria	43.1	40.1	49.8	57.8	64.4	69.4
Oil-importing countries						
Benin	15.1	13.5	13.7	14.3	12.9	12.6
Botswana	55.0	52.3	47.4	46.6	48.3	47.5
Burkina Faso	9.9	9.0	8.9	9.8	9.0	9.9
Burundi	8.0	6.2	9.3	8.9	8.8	8.2
Cape Verde	25.6	31.2	31.1	32.3	32.8	32.9
Central African Republic	19.9	15.4	11.8	11.8	11.9	12.2
Comoros	14.9	15.8	18.2	16.1	14.8	14.7
Congo, Dem. Rep. of	22.2	21.2	26.1	30.5	31.3	32.8
Ethiopia	12.5	13.4	14.3	15.4	16.4	17.3
Gambia, The	45.1	46.1	47.3	50.4	46.9	48.6
Ghana	38.5	42.0	40.7	39.3	32.1	32.4
Guinea	22.5	24.5	22.2	20.7	27.3	30.0
Guinea-Bissau	24.1	29.8	30.0	38.1	40.8	43.5
Kenya	21.8	24.7	23.7	25.0	24.7	26.9
Lesotho	30.9	54.1	48.1	54.1	51.5	52.2
Madagascar	25.5	16.0	23.1	32.6	27.8	28.4
Malawi	27.2	24.3	27.2	26.8	26.8	27.9
Mali	24.3	31.9	26.1	24.6	25.1	30.1
Mauritius	61.0	61.3	58.1	55.6	57.0	54.3
Mozambique	17.7	28.4	27.7	30.3	31.1	32.8
Namibia	45.4	43.3	37.3	39.7	35.1	36.0
Niger	17.1	15.2	15.7	16.3	15.8	15.8
Rwanda	7.4	7.7	8.3	10.3	9.5	9.7
São Tomé and Príncipe	32.4	34.6	35.0	31.2	30.5	34.9
Senegal	29.8	30.6	28.5	27.8	27.2	27.0
Seychelles	71.1	77.7	95.5	97.7	110.2	121.1
Sierra Leone	15.4	16.4	19.9	22.3	24.0	27.9
South Africa	26.7	32.7	27.9	26.6	27.4	27.6
Swaziland	79.7	94.9	86.1	100.4	95.5	97.1
Tanzania	14.4	15.2	16.7	20.4	23.1	23.5
Togo	30.2	34.9	40.1	38.7	36.2	38.7
Uganda	11.8	12.1	12.3	14.3	13.2	13.5
Zambia	29.0	28.6	28.9	37.6	33.6	31.0
Zimbabwe	33.5	6.5	17.6	42.6	42.8	82.8
Sub-Saharan Africa	**31.3**	**32.4**	**33.8**	**36.0**	**38.8**	**41.2**
Excluding Nigeria and South Africa	**32.3**	**30.3**	**34.1**	**38.5**	**40.9**	**44.7**
CFA franc zone	34.7	37.6	36.2	39.8	43.2	47.0
WAEMU	29.5	33.2	30.5	31.1	30.2	33.8
CEMAC	41.5	43.2	43.3	49.7	56.3	60.0
SADC	30.5	31.6	31.6	32.2	34.1	36.1
COMESA	32.2	25.8	33.6	40.0	42.4	47.2
Oil-exporting countries	45.7	46.8	50.5	56.7	63.3	69.0
Oil-importing countries	26.6	27.1	27.5	28.0	28.1	28.6
HIPC Initiative (completion point countries)	19.6	20.7	21.3	22.9	21.9	22.7
Fixed exchange rate regime	37.3	29.8	36.6	42.3	44.6	48.6
Floating exchange rate regime	29.7	33.5	33.0	34.3	37.3	39.5

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA16. Imports of Goods and Services
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	74.1	65.6	63.7	54.8	61.5	62.3
Cameroon	22.6	26.2	23.3	24.9	24.8	26.4
Chad	35.4	114.3	60.3	47.2	39.5	36.8
Congo, Rep. of	57.8	54.0	53.7	57.3	49.1	54.5
Côte d'Ivoire	33.0	33.4	35.3	38.4	40.0	43.1
Equatorial Guinea	117.2	53.9	81.6	60.0	50.7	45.1
Gabon	37.9	34.2	30.0	34.8	30.1	27.3
Nigeria	36.4	41.0	41.5	39.6	39.6	42.8
Oil-importing countries						
Benin	26.9	27.5	26.5	26.6	23.5	25.0
Botswana	45.9	39.8	35.9	39.8	41.2	41.9
Burkina Faso	24.7	22.3	21.7	20.8	21.7	22.5
Burundi	18.6	24.0	28.8	30.9	36.3	38.0
Cape Verde	59.8	67.5	64.9	63.4	63.0	65.4
Central African Republic	24.8	20.6	17.5	18.5	18.5	18.7
Comoros	33.4	26.2	28.5	27.8	28.0	29.0
Congo, Dem. Rep. of	20.7	26.1	33.3	39.3	38.9	42.4
Ethiopia	22.9	28.3	29.5	32.6	39.1	37.8
Gambia, The	53.0	54.4	56.5	68.0	63.8	63.6
Ghana	56.3	54.3	52.7	60.4	54.7	55.4
Guinea	26.3	28.4	24.6	24.8	29.5	32.4
Guinea-Bissau	47.3	51.2	44.1	55.9	52.8	73.8
Kenya	28.5	25.8	28.2	31.7	35.6	34.5
Lesotho	97.2	112.2	97.7	100.5	114.7	112.0
Madagascar	32.4	22.6	32.1	49.2	44.0	43.1
Malawi	38.4	45.8	49.7	51.2	53.0	50.0
Mali	33.9	32.0	33.3	32.0	34.7	36.0
Mauritius	63.3	57.1	57.2	55.2	61.3	57.9
Mozambique	35.2	46.9	43.2	38.4	41.0	41.3
Namibia	54.2	48.1	43.8	42.3	41.8	41.6
Niger	24.9	24.1	25.0	26.5	27.4	27.6
Rwanda	24.4	24.5	27.6	28.6	31.2	32.6
São Tomé and Príncipe	88.1	85.1	90.1	88.6	88.4	94.3
Senegal	37.6	41.7	41.5	41.5	41.4	41.2
Seychelles	84.4	84.0	84.3	89.4	120.5	117.3
Sierra Leone	27.2	35.9	41.3	37.9	42.7	43.7
South Africa	24.3	29.1	26.0	27.3	28.9	28.9
Swaziland	97.4	95.2	86.4	104.0	102.8	103.8
Tanzania	25.1	22.6	23.5	26.3	30.8	35.6
Togo	43.9	49.1	55.5	53.2	53.8	55.5
Uganda	22.5	26.5	26.6	27.6	26.3	28.1
Zambia	40.0	42.0	41.6	40.0	36.5	33.6
Zimbabwe	33.8	7.2	20.7	51.3	53.6	83.0
Sub-Saharan Africa	**31.6**	**32.8**	**33.5**	**34.7**	**36.2**	**37.3**
Excluding Nigeria and South Africa	**36.9**	**33.0**	**37.6**	**40.5**	**42.1**	**43.4**
CFA franc zone	33.6	36.5	35.2	36.0	35.0	35.6
WAEMU	32.6	33.1	33.9	34.9	35.5	37.2
CEMAC	35.0	40.8	36.8	37.2	34.4	34.1
SADC	30.3	30.2	31.1	32.7	35.1	36.1
COMESA	38.1	28.9	39.0	44.0	47.2	48.3
Oil-exporting countries	39.1	43.1	42.5	41.2	42.1	44.9
Oil-importing countries	29.2	29.0	30.1	32.2	33.6	33.9
HIPC Initiative (completion point countries)	31.1	31.9	32.9	35.5	36.4	37.4
Fixed exchange rate regime	38.0	29.6	36.5	40.3	39.6	40.5
Floating exchange rate regime	29.8	34.1	32.6	33.2	35.3	36.6

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA17. Trade Balance
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	35.9	40.8	29.1	36.9	46.5	57.0
Cameroon	4.3	0.7	1.7	−0.1	1.4	2.0
Chad	−5.5	−71.0	−6.6	33.6	44.8	49.6
Congo, Rep. of	47.2	51.1	50.2	53.4	59.8	60.2
Côte d'Ivoire	14.1	24.1	18.5	17.5	15.5	20.5
Equatorial Guinea	35.5	77.2	53.6	66.4	77.3	85.9
Gabon	35.1	32.7	35.2	38.8	46.1	50.6
Nigeria	15.8	8.6	17.5	26.9	32.8	33.1
Oil-importing countries						
Benin	−10.0	−12.2	−11.3	−11.0	−10.0	−11.6
Botswana	13.1	13.0	11.6	7.0	7.0	5.1
Burkina Faso	−10.8	−10.1	−8.5	−6.9	−8.4	−8.2
Burundi	−6.3	−12.1	−14.9	−14.3	−17.7	−19.5
Cape Verde	−35.2	−38.0	−35.5	−35.8	−35.7	−37.6
Central African Republic	2.3	2.0	0.6	−1.1	−1.4	−1.5
Comoros	−14.4	−8.6	−7.7	−12.6	−14.0	−15.4
Congo, Dem. Rep. of	6.9	−0.3	−2.8	−3.7	−2.8	−5.5
Ethiopia	−12.1	−16.9	−17.3	−20.4	−25.2	−23.6
Gambia, The	−15.6	−16.9	−17.0	−27.0	−28.0	−27.3
Ghana	−16.0	−10.6	−10.3	−17.1	−22.2	−19.2
Guinea	2.9	3.5	4.2	0.8	4.0	4.5
Guinea-Bissau	−9.9	−8.3	−3.6	−5.1	−0.7	−12.6
Kenya	−8.3	−4.6	−7.7	−10.4	−14.3	−13.0
Lesotho	−65.3	−55.2	−46.3	−43.7	−60.0	−56.8
Madagascar	−3.2	−2.6	−3.5	−10.2	−12.1	−11.4
Malawi	−3.7	−15.8	−19.9	−22.3	−24.2	−19.9
Mali	−0.4	5.7	−1.3	−1.7	−3.6	0.1
Mauritius	−8.3	−4.5	−5.8	−6.3	−11.2	−12.1
Mozambique	−16.5	−17.5	−14.3	−8.8	−9.5	−8.9
Namibia	−5.7	−6.6	−10.3	−5.0	−9.3	−8.5
Niger	−2.4	−4.2	−4.9	−5.4	−6.9	−6.6
Rwanda	−9.3	−9.7	−10.7	−9.7	−13.3	−15.2
São Tomé and Príncipe	−39.2	−43.5	−45.6	−50.5	−54.5	−56.3
Senegal	−7.5	−10.8	−12.6	−13.2	−13.8	−13.9
Seychelles	−31.5	−20.0	−13.0	−16.6	−37.7	−28.0
Sierra Leone	−4.8	−15.0	−15.0	−7.2	−10.7	−8.6
South Africa	2.8	4.3	2.1	−0.1	—	0.1
Swaziland	−8.2	7.6	2.2	−1.4	−3.8	−3.2
Tanzania	−8.0	−7.1	−6.3	−7.6	−8.3	−11.6
Togo	−9.3	−10.3	−9.1	−9.9	−13.2	−12.5
Uganda	−6.8	−9.0	−10.0	−9.9	−9.4	−10.8
Zambia	−5.0	−6.9	−7.2	1.5	0.8	0.6
Zimbabwe	1.3	−0.1	−1.0	−6.5	−8.3	2.5
Sub-Saharan Africa	**3.5**	**3.6**	**3.9**	**5.0**	**7.3**	**9.1**
Excluding Nigeria and South Africa	**0.8**	**1.9**	**1.4**	**3.3**	**5.6**	**9.7**
CFA franc zone	8.7	9.2	9.1	12.6	16.7	19.9
WAEMU	1.8	5.0	1.6	1.0	−0.6	1.4
CEMAC	17.5	14.5	18.4	25.6	34.2	38.0
SADC	2.5	3.6	2.0	1.3	2.7	5.1
COMESA	−0.9	0.6	−1.6	0.5	3.0	9.8
Oil-exporting countries	18.3	15.9	19.4	27.2	34.1	38.5
Oil-importing countries	−1.4	−1.0	−2.0	−3.5	−4.4	−4.2
HIPC Initiative (completion point countries)	−9.3	−9.3	−9.5	−11.2	−13.2	−13.1
Fixed exchange rate regime	5.3	4.9	5.9	8.5	11.5	14.6
Floating exchange rate regime	3.1	3.1	3.3	4.1	6.2	7.8

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA18. External Current Account, Including Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	−14.8	−2.9	−5.2	4.2	8.2	11.3
Cameroon	−2.7	−6.1	−2.1	−3.4	−1.5	−1.6
Chad	−16.0	−101.0	−48.4	−6.6	2.2	8.2
Congo, Rep. of	−9.2	−0.3	1.0	2.2	13.9	13.6
Côte d'Ivoire	−1.9	6.4	1.8	2.7	0.7	1.9
Equatorial Guinea	−42.2	−13.5	−43.8	−24.2	−13.3	−5.8
Gabon	7.0	6.8	12.0	9.9	15.7	19.6
Nigeria	0.8	−11.5	−2.7	4.9	14.7	18.4
Oil-importing countries						
Benin	−6.7	−8.4	−8.3	−7.2	−6.4	−8.8
Botswana	10.4	3.6	6.0	9.5	8.9	4.8
Burkina Faso	−10.2	−10.0	−8.6	−7.8	−9.2	−9.2
Burundi	−6.1	−5.2	−4.8	−7.2	−4.4	−8.1
Cape Verde	−10.2	−11.4	−9.5	−6.7	−4.3	−10.7
Central African Republic	−3.2	−3.4	−4.7	−4.5	−4.1	−3.9
Comoros	−6.1	−0.6	−4.3	−2.6	−4.3	−3.8
Congo, Dem. Rep. of	−4.8	−3.2	−1.8	−5.7	−4.8	−2.6
Ethiopia	−3.5	−4.7	−2.2	−5.1	−9.1	−7.5
Gambia, The	−2.9	−2.8	−5.1	−11.8	−13.1	−11.5
Ghana	−8.9	0.5	1.7	−2.7	−6.6	−7.8
Guinea	−6.3	−4.3	−3.4	−5.6	−3.4	−3.4
Guinea-Bissau	−13.1	−10.7	−2.8	0.7	−1.5	−19.6
Kenya	−2.9	2.2	−0.2	−2.5	−7.6	−4.4
Lesotho	−22.3	−17.9	−10.7	−2.8	−14.7	−15.9
Madagascar	−5.1	−6.0	−4.9	−10.8	−12.8	−10.4
Malawi	−6.4	−11.2	−7.6	−9.3	−7.7	−4.6
Mali	−8.4	−3.1	−6.2	−7.9	−9.2	−7.5
Mauritius	−0.4	5.5	2.4	0.8	−3.5	−2.5
Mozambique	−17.1	−18.9	−14.8	−8.4	−11.6	−10.4
Namibia	5.3	5.4	5.1	10.2	5.7	6.6
Niger	−6.3	−6.5	−5.6	−6.5	−6.1	−7.2
Rwanda	−7.6	−6.7	−7.8	−3.1	−3.9	−9.9
São Tomé and Príncipe	−29.6	−24.1	−22.3	−20.1	−33.1	−28.4
Senegal	−5.0	−6.0	−6.6	−6.7	−7.9	−8.2
Seychelles	−15.6	−16.3	6.4	5.3	−14.6	−1.8
Sierra Leone	−9.1	−4.8	−7.6	−4.9	−8.5	−6.4
South Africa	−0.8	0.6	−1.3	−3.4	−4.2	−3.9
Swaziland	−3.9	4.8	1.9	1.7	−1.4	−1.3
Tanzania	−7.3	−3.8	−2.4	−1.6	−2.6	−7.6
Togo	−10.5	−9.5	−9.4	−8.3	−11.6	−10.3
Uganda	−6.4	−4.9	−5.8	−1.7	−1.2	−3.9
Zambia	−14.9	−15.4	−15.2	−10.3	−10.2	−9.3
Zimbabwe	−2.0	−0.6	−2.9	−8.3	−11.1	1.7
Sub-Saharan Africa	**−2.5**	**−3.3**	**−2.6**	**−1.8**	**−0.5**	**0.7**
Excluding Nigeria and South Africa	**−5.1**	**−3.5**	**−3.6**	**−2.2**	**−2.1**	**−0.7**
CFA franc zone	−4.5	−5.9	−5.3	−3.4	−1.3	0.1
WAEMU	−5.2	−1.8	−3.9	−3.6	−5.0	−4.8
CEMAC	−3.7	−11.1	−7.0	−3.1	2.5	5.0
SADC	−2.1	−0.8	−1.8	−2.4	−3.0	−2.1
COMESA	−5.0	−1.9	−2.9	−1.7	−2.4	0.5
Oil-exporting countries	−2.0	−8.2	−3.6	2.4	9.3	12.3
Oil-importing countries	−2.7	−1.4	−2.2	−3.4	−4.8	−4.5
HIPC Initiative (completion point countries)	−7.3	−5.8	−4.9	−5.3	−7.0	−7.8
Fixed exchange rate regime	−3.0	−3.4	−3.5	−1.6	−0.8	0.6
Floating exchange rate regime	−2.4	−3.2	−2.3	−1.8	−0.5	0.8

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA19. External Current Account, Excluding Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	−15.9	−3.2	−5.9	3.9	7.7	10.9
Cameroon	−2.8	−6.4	−2.6	−3.6	−2.0	−2.0
Chad	−18.1	−102.9	−51.2	−9.8	0.1	6.3
Congo, Rep. of	−9.4	−0.5	0.8	2.0	13.7	13.5
Côte d'Ivoire	−2.4	6.1	1.4	1.9	−0.2	0.8
Equatorial Guinea	−43.9	−14.2	−44.4	−24.7	−13.6	−6.1
Gabon	6.7	7.5	12.8	9.8	15.6	19.5
Nigeria	0.9	−11.5	−2.6	4.9	14.8	18.5
Oil-importing countries						
Benin	−9.3	−12.0	−11.6	−10.4	−9.4	−11.1
Botswana	6.1	−0.4	2.2	3.6	2.0	−0.6
Burkina Faso	−13.3	−12.6	−12.7	−10.7	−12.2	−11.9
Burundi	−11.4	−19.1	−21.3	−24.3	−30.0	−31.8
Cape Verde	−17.7	−17.1	−15.5	−12.4	−9.7	−14.3
Central African Republic	−6.5	−5.8	−5.6	−6.6	−6.0	−5.9
Comoros	−8.2	−3.3	−5.4	−2.7	−4.8	−5.8
Congo, Dem. Rep. of	−8.7	−11.1	−10.7	−12.9	−11.1	−13.0
Ethiopia	−7.0	−10.7	−9.8	−10.9	−15.8	−13.2
Gambia, The	−10.4	−13.4	−13.6	−21.6	−19.4	−17.6
Ghana	−12.2	−3.1	−3.5	−8.8	−11.7	−11.6
Guinea	−7.4	−5.6	−4.1	−5.8	−4.1	−4.2
Guinea-Bissau	−26.3	−18.7	−12.0	−14.0	−8.6	−25.6
Kenya	−3.2	2.2	−0.6	−2.5	−7.6	−4.7
Lesotho	−39.1	−34.5	−25.6	−22.1	−37.0	−33.7
Madagascar	−6.2	−6.1	−7.5	−14.6	−14.1	−12.0
Malawi	−13.4	−23.3	−16.9	−20.5	−21.0	−18.1
Mali	−10.3	−4.4	−8.9	−9.6	−11.2	−8.9
Mauritius	−0.6	5.2	2.1	0.3	−3.6	−2.6
Mozambique	−23.5	−22.6	−19.5	−13.8	−16.6	−16.7
Namibia	−6.3	−3.0	−4.7	−1.0	−5.5	−4.3
Niger	−8.8	−9.4	−8.9	−9.7	−10.4	−11.0
Rwanda	−16.8	−16.6	−19.2	−18.2	−21.3	−22.0
São Tomé and Príncipe	−63.5	−54.5	−56.7	−58.9	−59.2	−59.8
Senegal	−7.1	−7.9	−8.5	−8.5	−9.3	−9.5
Seychelles	−17.6	−18.1	4.9	3.5	−16.0	−3.1
Sierra Leone	−13.1	−12.1	−14.1	−11.6	−14.5	−11.8
South Africa	−0.1	1.1	−0.8	−2.7	−3.5	−3.2
Swaziland	−12.8	−3.6	−5.7	−7.4	−11.6	−10.9
Tanzania	−12.2	−8.2	−7.1	−6.5	−8.4	−12.7
Togo	−13.9	−10.2	−10.0	−9.0	−12.3	−11.1
Uganda	−12.7	−13.2	−13.5	−12.0	−10.2	−11.2
Zambia	−16.7	−18.0	−16.7	−10.7	−11.7	−10.6
Zimbabwe	−3.0	−0.7	−3.3	−8.9	−11.7	−0.6
Sub-Saharan Africa	**−3.5**	**−4.4**	**−3.7**	**−2.9**	**−1.6**	**−0.3**
Excluding Nigeria and South Africa	**−7.8**	**−5.9**	**−6.6**	**−5.4**	**−5.3**	**−3.7**
CFA franc zone	−5.7	−6.9	−6.5	−4.6	−2.5	−0.9
WAEMU	−7.0	−3.3	−5.8	−5.5	−6.9	−6.5
CEMAC	−4.2	−11.4	−7.5	−3.7	1.9	4.5
SADC	−2.8	−1.6	−2.6	−3.1	−3.6	−2.8
COMESA	−7.9	−4.5	−6.5	−5.5	−6.1	−3.0
Oil-exporting countries	−2.2	−8.4	−3.8	2.2	9.0	12.1
Oil-importing countries	−4.0	−2.9	−3.7	−4.8	−6.2	−5.9
HIPC Initiative (completion point countries)	−11.1	−9.7	−9.6	−10.1	−11.7	−12.0
Fixed exchange rate regime	−5.3	−4.8	−5.6	−4.2	−3.4	−1.8
Floating exchange rate regime	−3.0	−4.2	−3.2	−2.5	−1.1	0.1

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA20. Official Grants
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	1.2	0.3	0.7	0.3	0.5	0.4
Cameroon	0.1	0.3	0.5	0.2	0.5	0.4
Chad	2.0	2.0	2.8	3.2	2.2	1.9
Congo, Rep. of	0.3	0.2	0.2	0.2	0.1	0.1
Côte d'Ivoire	0.5	0.3	0.4	0.9	0.9	1.0
Equatorial Guinea	1.7	0.7	0.6	0.4	0.3	0.3
Gabon	0.3	−0.6	−0.7	0.1	—	0.1
Nigeria	−0.1	—	−0.1	−0.1	−0.1	−0.1
Oil-importing countries						
Benin	2.6	3.6	3.2	3.2	3.0	2.4
Botswana	4.3	4.0	3.7	5.8	7.0	5.3
Burkina Faso	3.1	2.6	4.2	2.9	3.0	2.7
Burundi	5.3	13.9	16.5	17.2	25.5	23.7
Cape Verde	7.5	5.7	6.0	5.7	5.4	3.6
Central African Republic	3.3	2.4	0.9	2.1	1.9	1.9
Comoros	2.1	2.7	1.1	0.1	0.4	2.0
Congo, Dem. Rep. of	3.8	7.9	8.9	7.1	6.2	10.4
Ethiopia	3.5	5.9	7.6	5.8	6.7	5.8
Gambia, The	7.4	10.6	8.5	9.9	6.3	6.1
Ghana	3.2	3.6	5.2	6.1	5.1	3.8
Guinea	1.1	1.4	0.7	0.3	0.7	0.8
Guinea-Bissau	13.2	8.0	9.2	14.7	7.1	5.9
Kenya	0.3	—	0.4	—	—	0.3
Lesotho	16.8	16.6	14.9	19.3	22.3	17.7
Madagascar	1.0	0.2	2.6	3.8	1.3	1.6
Malawi	7.0	12.2	9.3	11.2	13.3	13.5
Mali	1.9	1.3	2.6	1.8	2.0	1.4
Mauritius	0.1	0.2	0.2	0.5	0.1	0.1
Mozambique	6.4	3.6	4.8	5.4	5.0	6.2
Namibia	11.6	8.4	9.8	11.3	11.2	10.9
Niger	2.5	2.9	3.3	3.2	4.4	3.8
Rwanda	9.2	9.8	11.4	15.2	17.3	12.1
São Tomé and Príncipe	33.9	30.4	34.4	38.8	26.2	31.4
Senegal	2.2	2.0	1.9	1.9	1.5	1.3
Seychelles	2.0	1.8	1.5	1.8	1.4	1.3
Sierra Leone	4.0	7.4	6.5	6.6	6.1	5.4
South Africa	−0.6	−0.5	−0.5	−0.7	−0.7	−0.7
Swaziland	8.9	8.4	7.6	9.1	10.2	9.6
Tanzania	5.0	4.3	4.7	4.9	5.8	5.1
Togo	3.4	0.7	0.6	0.7	0.7	0.8
Uganda	6.4	8.3	7.7	10.2	9.0	7.4
Zambia	1.8	2.5	1.5	0.4	1.5	1.2
Zimbabwe	1.0	0.1	0.4	0.5	0.6	2.3
Sub-Saharan Africa	**1.0**	**1.1**	**1.1**	**1.1**	**1.1**	**1.0**
Excluding Nigeria and South Africa	**2.7**	**2.4**	**3.0**	**3.2**	**3.2**	**2.9**
CFA franc zone	1.2	1.0	1.3	1.3	1.2	1.1
WAEMU	1.7	1.5	1.9	1.9	1.9	1.7
CEMAC	0.5	0.3	0.4	0.6	0.6	0.5
SADC	0.7	0.8	0.8	0.6	0.7	0.7
COMESA	2.9	2.5	3.6	3.8	3.7	3.5
Oil-exporting countries	0.2	0.1	0.2	0.2	0.3	0.2
Oil-importing countries	1.2	1.5	1.5	1.4	1.4	1.4
HIPC Initiative (completion point countries)	3.8	3.9	4.6	4.8	4.7	4.2
Fixed exchange rate regime	2.3	1.4	2.1	2.6	2.6	2.4
Floating exchange rate regime	0.6	1.0	0.9	0.7	0.7	0.7

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA21. Real Effective Exchange Rates[1]
(Index, 2000 = 100)

	1997–2001	2002	2003	2004	2005
Oil-exporting countries					
Angola	100.4	118.0	117.4	140.0	158.4
Cameroon	106.4	107.1	110.5	110.7	110.7
Chad	109.4	115.8	119.1	114.2	121.2
Congo, Rep. of	105.3	104.9	109.3	112.9	112.9
Côte d'Ivoire	103.3	107.6	115.0	116.6	116.4
Equatorial Guinea	106.4	114.9	134.4	143.8	149.9
Gabon	105.6	100.0	104.8	105.1	102.6
Nigeria	135.7	111.0	105.0	107.8	123.9
Oil-importing countries					
Benin	103.6	106.2	115.1	117.9	121.0
Botswana	97.3	109.3	115.0	110.2	107.2
Burkina Faso	105.6	106.8	112.1	111.5	114.8
Burundi	107.3	81.9	63.6	64.2	70.8
Cape Verde	102.7	98.2	99.9	97.0	94.8
Central African Republic	102.5	116.1	123.3	122.2	114.7
Comoros	106.9	113.8	116.8	120.5	122.2
Congo, Dem. Rep. of	81.7	36.6	31.7	28.5	29.5
Ethiopia	99.0	87.1	90.1	85.0	91.3
Gambia, The	101.3	71.7	51.8	51.2	53.5
Ghana	130.5	99.8	100.5	99.4	109.5
Guinea	108.2	92.1	88.2	83.2	65.4
Guinea-Bissau	101.5	104.5	105.6	107.4	104.6
Kenya	100.2	105.0	106.5	104.1	116.1
Lesotho	106.0	79.4	112.0	98.6	67.6
Madagascar	98.2	119.6	105.7	80.1	85.1
Malawi	105.8	109.3	80.3	73.3	75.2
Mali	107.0	105.9	109.9	105.2	108.4
Mauritius	96.1	96.5	94.2	91.9	87.0
Mozambique	97.2	90.5	79.7	83.5	84.9
Namibia	99.8	87.2	104.6	111.9	112.7
Niger	104.9	106.0	108.2	108.8	113.1
Rwanda	105.3	86.5	72.6	69.6	75.3
São Tomé and Príncipe	90.0	95.4	86.8	84.2	90.0
Senegal	104.8	104.0	106.6	106.7	104.1
Seychelles	96.7	109.0	100.9	94.2	92.1
Sierra Leone	103.7	94.5	77.7	69.5	70.9
South Africa	104.0	73.9	97.3	107.6	108.5
Swaziland	97.9	88.3	102.8	113.2	113.5
Tanzania	98.8	90.8	75.0	67.7	65.7
Togo	104.0	105.8	109.5	110.9	115.9
Uganda	109.9	93.5	81.8	84.6	88.8
Zambia	102.8	111.0	101.7	107.9	134.9
Zimbabwe	99.9	359.0	197.9	69.4	63.4
Sub-Saharan Africa	**102.8**	**94.0**	**103.4**	**106.0**	**109.8**
Excluding Nigeria and South Africa	**98.6**	**107.8**	**103.9**	**99.7**	**102.9**
CFA franc zone	105.2	107.3	112.9	113.5	115.0
WAEMU	104.5	106.2	111.2	111.3	112.8
CEMAC	106.3	108.8	115.2	116.4	117.8
SADC	98.1	87.1	103.5	108.5	109.6
COMESA	92.8	113.4	103.8	96.5	102.2
Oil-exporting countries	115.6	110.8	110.0	114.5	125.8
Oil-importing countries	100.4	89.7	101.4	103.4	105.3
HIPC Initiative (completion point countries)	105.9	97.2	94.0	91.4	95.7
Fixed exchange rate regime	102.1	135.0	135.4	125.6	124.6
Floating exchange rate regime	103.0	84.7	95.3	99.9	104.5

Sources: IMF, Information Notice System, March 30, 2006.

[1]An increase indicates appreciation.

Table SA22. Nominal Effective Exchange Rates[1]
(Index, 2000 = 100)

	1997–2001	2002	2003	2004	2005
Oil-exporting countries					
Angola	934.5	21.5	10.8	9.0	8.4
Cameroon	103.8	103.7	108.6	110.8	110.1
Chad	104.6	102.2	109.3	113.2	112.8
Congo, Rep. of	104.5	105.1	112.8	116.6	116.2
Côte d'Ivoire	102.5	105.4	112.2	115.0	113.6
Equatorial Guinea	107.2	102.3	114.0	119.8	119.6
Gabon	103.4	101.6	106.3	108.5	108.1
Nigeria	141.7	87.0	74.2	67.9	68.0
Oil-importing countries					
Benin	105.2	103.1	112.1	117.0	116.4
Botswana	100.1	108.5	112.4	105.1	99.0
Burkina Faso	101.5	106.8	114.3	117.7	117.8
Burundi	122.5	80.9	61.4	56.9	57.3
Cape Verde	100.0	100.5	104.4	105.9	105.6
Central African Republic	103.5	102.0	106.3	108.1	107.9
Comoros	102.1	110.4	112.3	113.3	113.4
Congo, Dem. Rep. of	525.0	4.6	3.6	3.2	2.6
Ethiopia	100.6	99.8	90.3	84.9	84.0
Gambia, The	100.6	66.5	42.3	37.5	39.1
Ghana	156.4	67.6	55.0	49.4	48.5
Guinea	109.7	90.3	80.2	66.9	41.5
Guinea-Bissau	104.2	103.8	112.0	116.2	115.0
Kenya	105.5	102.4	97.5	87.8	91.4
Lesotho	113.6	67.2	92.0	105.8	106.4
Madagascar	106.7	101.3	92.8	63.9	57.9
Malawi	147.5	89.7	68.0	61.9	60.5
Mali	103.0	103.8	109.2	111.8	111.2
Mauritius	99.3	90.2	86.7	82.9	76.8
Mozambique	101.0	77.5	62.6	59.3	58.2
Namibia	105.2	77.3	89.6	93.9	95.0
Niger	103.4	104.5	111.4	114.7	114.0
Rwanda	104.3	86.0	69.5	61.3	63.0
São Tomé and Príncipe	106.7	85.1	72.6	63.7	59.5
Senegal	102.5	103.7	109.1	111.5	111.2
Seychelles	98.1	109.0	100.5	92.7	92.5
Sierra Leone	124.0	100.1	78.4	62.7	58.3
South Africa	107.4	68.4	89.8	103.1	105.3
Swaziland	103.1	84.3	98.5	109.5	110.6
Tanzania	104.6	89.6	73.8	65.8	63.0
Togo	101.1	106.5	115.8	120.5	120.0
Uganda	110.8	96.6	80.7	83.7	84.1
Zambia	127.0	85.4	70.8	69.0	78.6
Zimbabwe	152.1	92.5	18.1	1.0	0.3
Sub-Saharan Africa	**114.7**	**76.7**	**80.2**	**80.4**	**78.8**
Excluding Nigeria and South Africa	**118.3**	**81.2**	**71.4**	**64.8**	**61.1**
CFA franc zone	103.2	104.1	110.8	114.0	113.4
WAEMU	102.6	104.9	111.8	115.0	114.3
CEMAC	104.2	103.0	109.5	112.7	112.2
SADC	116.7	64.7	73.6	76.7	74.8
COMESA	131.0	70.0	54.5	45.7	42.0
Oil-exporting countries	131.4	83.1	73.7	69.8	69.1
Oil-importing countries	111.5	75.0	81.8	83.3	81.4
HIPC Initiative (completion point countries)	109.2	91.6	82.6	78.5	77.3
Fixed exchange rate regime	108.0	99.9	96.1	87.6	81.0
Floating exchange rate regime	116.7	71.3	76.1	77.9	77.4

Sources: IMF, Information Notice System, March 30, 2006.
[1]An increase indicates appreciation.

Table SA23. External Debt to Official Creditors
(In percent of GDP)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	68.4	56.4	46.6	33.6	22.5	16.9
Cameroon	63.7	49.1	46.3	39.8	32.5	29.3
Chad	61.3	57.4	51.3	35.9	26.6	25.0
Congo, Rep. of	186.3	161.6	170.6	115.2	69.2	64.2
Côte d'Ivoire	72.5	71.1	72.0	70.1	60.1	55.6
Equatorial Guinea	45.7	10.2	10.1	6.2	3.8	3.0
Gabon	69.8	64.8	58.4	53.7	42.7	35.7
Nigeria	64.8	60.5	53.1	50.0	21.7	3.2
Oil-importing countries						
Benin	69.0	66.3	54.4	49.8	47.8	48.4
Botswana	11.2	8.2	5.7	4.9	3.4	2.7
Burkina Faso	51.9	51.1	41.4	35.5	33.3	33.4
Burundi	139.1	179.9	224.0	207.0	188.8	157.9
Cape Verde	52.8	60.9	60.1	52.7	51.3	52.3
Central African Republic	82.3	87.0	89.5	81.9	77.9	73.6
Comoros	100.5	93.0	93.0	77.1	75.3	70.8
Congo, Dem. Rep. of	261.8	192.4	184.7	164.9	154.2	62.1
Ethiopia	57.9	71.7	70.9	62.5	59.2	55.2
Gambia, The	107.8	134.6	145.5	131.6	118.3	114.5
Ghana	93.5	116.7	97.3	85.0	71.7	70.8
Guinea	97.3	94.9	92.7	82.5	97.7	100.7
Guinea-Bissau	381.7	404.5	350.4	309.9	291.9	290.5
Kenya	38.0	35.1	31.7	29.7	25.4	25.6
Lesotho	60.7	74.8	56.2	47.5	52.0	51.1
Madagascar	114.6	98.6	83.5	109.3	105.2	101.6
Malawi	137.2	573.4	635.6	592.4	548.0	541.2
Mali	99.1	90.2	64.0	66.8	65.5	66.8
Mauritius	13.1	10.8	9.4	8.3	7.9	7.8
Mozambique	100.2	86.3	81.5	72.3	69.1	70.3
Namibia	2.8	4.5	5.4	5.3	5.5	6.1
Niger	85.7	80.7	68.2	64.1	59.1	62.8
Rwanda	67.3	80.8	85.0	82.1	71.0	66.7
São Tomé and Príncipe	623.1	495.2	458.3	439.1	374.2	351.3
Senegal	70.1	69.7	57.9	48.8	39.4	39.2
Seychelles	21.1	39.7	35.0	39.4	44.0	43.2
Sierra Leone	112.5	37.5	50.3	48.4	50.5	47.1
South Africa	3.4	4.5	3.0	2.3	2.1	2.0
Swaziland	17.6	24.7	18.5	21.3	20.5	20.2
Tanzania	83.4	51.5	55.3	50.9	48.0	46.1
Togo	83.8	93.6	89.5	79.5	72.7	68.5
Uganda	57.4	62.1	63.1	63.1	44.5	41.5
Zambia	181.6	135.4	107.9	77.8	54.3	41.4
Zimbabwe	38.5	10.2	33.7	77.0	56.7	100.0
Sub-Saharan Africa	**43.9**	**44.4**	**39.0**	**33.7**	**26.0**	**20.9**
Excluding Nigeria and South Africa	**74.8**	**64.7**	**66.2**	**59.8**	**50.4**	**44.4**
CFA franc zone	77.2	70.4	64.2	55.1	45.1	42.1
WAEMU	76.2	74.4	65.7	61.3	54.4	53.0
CEMAC	79.0	65.4	62.3	48.1	35.7	31.5
SADC	25.2	26.8	22.4	18.4	16.0	13.3
COMESA	72.8	60.5	69.6	65.9	53.9	43.3
Oil-exporting countries	69.4	62.3	56.7	49.1	28.6	17.1
Oil-importing countries	35.7	37.8	32.4	27.7	24.9	22.7
HIPC Initiative (completion point countries)	77.9	75.3	67.8	63.4	57.0	56.0
Fixed exchange rate regime	61.7	44.8	52.1	48.2	39.8	38.0
Floating exchange rate regime	39.0	44.3	35.2	29.8	22.5	16.8

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA24. Terms of Trade
(Index, 2000 = 100)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	70.1	86.3	91.6	108.7	135.9	148.1
Cameroon	89.6	99.8	99.0	97.7	112.6	117.7
Chad	103.2	109.3	136.8	140.3	179.1	221.2
Congo, Rep. of	71.5	104.0	114.0	120.3	130.9	123.0
Côte d'Ivoire	118.6	136.1	124.8	103.2	105.2	105.2
Equatorial Guinea	50.2	90.8	57.6	63.9	79.0	96.4
Gabon	93.7	87.8	109.8	111.7	125.0	125.5
Nigeria	74.5	89.1	91.3	110.0	151.6	165.1
Oil-importing countries						
Benin	111.9	94.2	97.4	118.1	89.4	105.0
Botswana	103.0	81.5	76.4	66.9	65.3	61.4
Burkina Faso	104.4	85.7	81.9	76.9	54.3	53.3
Burundi	108.4	79.5	79.8	100.0	108.2	108.1
Cape Verde	83.5	88.6	85.7	87.5	90.3	91.2
Central African Republic	100.9	83.6	85.2	71.3	72.4	72.9
Comoros	80.3	162.8	276.5	188.6	153.7	149.6
Congo, Dem. Rep. of	104.2	107.8	124.6	129.1	143.6	157.3
Ethiopia	136.0	86.4	77.8	68.5	77.2	80.2
Gambia, The	115.7	70.7	118.9	113.3	82.6	89.5
Ghana	119.3	110.8	127.2	108.1	82.5	88.7
Guinea	109.8	104.0	102.3	84.5	77.8	78.8
Guinea-Bissau	76.6	69.5	65.3	61.6	70.4	70.8
Kenya	102.1	101.7	84.0	77.8	70.7	69.0
Lesotho	96.6	107.9	107.1	107.2	97.2	96.0
Madagascar	100.6	107.3	118.0	99.7	67.9	66.5
Malawi	108.4	82.8	80.4	79.5	69.8	74.9
Mali	114.8	97.4	96.5	98.5	86.4	95.7
Mauritius	102.4	104.6	107.2	106.9	98.2	95.2
Mozambique	97.8	93.8	91.9	103.5	113.2	118.5
Namibia	89.5	106.8	81.1	93.5	95.7	99.8
Niger	109.7	111.6	108.7	100.5	86.7	88.9
Rwanda	100.7	83.1	69.8	92.1	66.9	58.5
São Tomé and Príncipe	62.4	52.8	50.6	36.5	33.9	33.0
Senegal	103.0	105.3	102.0	101.3	98.7	97.6
Seychelles	123.4	122.0	149.7	150.9	113.9	128.4
Sierra Leone	110.9	102.3	100.4	95.7	102.1	98.1
South Africa	104.4	103.4	104.9	105.7	103.3	103.6
Swaziland	99.5	99.3	99.8	110.4	118.0	116.8
Tanzania	90.0	69.2	65.3	65.2	64.9	65.1
Togo	115.5	107.2	113.8	104.5	96.3	95.4
Uganda	89.1	70.3	70.6	77.8	72.9	71.2
Zambia	107.1	93.2	96.8	116.8	119.0	111.1
Zimbabwe	97.9	96.2	91.8	86.4	82.2	82.2
Sub-Saharan Africa	**100.0**	**98.1**	**99.2**	**101.9**	**108.4**	**112.9**
Excluding Nigeria and South Africa	**102.1**	**97.3**	**96.6**	**95.7**	**98.7**	**104.4**
CFA franc zone	102.8	106.2	105.2	101.4	105.4	111.5
WAEMU	112.7	113.4	107.9	100.2	91.9	94.3
CEMAC	88.7	97.2	101.9	102.9	119.1	128.2
SADC	101.8	98.6	100.5	103.3	104.4	107.4
COMESA	101.2	95.1	92.6	95.8	101.0	108.0
Oil-exporting countries	85.0	96.8	98.3	107.5	136.8	148.0
Oil-importing countries	104.5	98.6	99.5	99.8	96.1	97.0
HIPC Initiative (completion point countries)	107.4	90.5	91.9	88.9	80.3	82.9
Fixed exchange rate regime	101.4	101.7	100.9	98.2	101.1	106.2
Floating exchange rate regime	99.6	96.7	98.7	102.9	110.3	114.5

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

Table SA25. Reserves
(In months of imports of goods and services)

	1997–2001	2002	2003	2004	2005	2006
Oil-exporting countries						
Angola	1.3	0.6	0.9	1.5	2.7	2.9
Cameroon	0.5	2.7	2.4	2.5	3.0	3.0
Chad	2.6	1.2	1.4	1.3	1.6	2.6
Congo, Rep. of	0.7	0.7	0.2	0.6	0.5	0.5
Côte d'Ivoire	2.4	5.8	3.2	3.4	3.0	2.9
Equatorial Guinea	0.2	0.9	1.2	4.1	7.9	12.5
Gabon	0.7	1.0	1.3	2.1	2.2	6.9
Nigeria	6.8	4.6	3.6	7.6	10.1	14.3
Oil-importing countries						
Benin	7.2	9.5	9.1	7.1	6.6	5.6
Botswana	30.7	30.3	23.0	18.8	18.5	18.0
Burkina Faso	5.2	5.1	9.7	7.5	5.5	4.6
Burundi	4.6	4.7	4.7	3.8	3.9	3.2
Cape Verde	1.0	2.3	2.1	2.8	3.5	3.6
Central African Republic	7.0	6.9	7.6	7.4	7.4	7.5
Comoros	7.8	14.8	12.6	12.1	12.0	11.4
Congo, Dem. Rep. of	3.2	0.6	0.6	1.1	0.6	0.7
Ethiopia	3.1	5.2	4.9	5.7	4.1	2.9
Gambia, The	5.8	6.4	3.6	3.7	3.8	3.8
Ghana	1.4	2.0	4.1	3.7	3.7	3.8
Guinea	2.8	2.2	1.9	1.4	1.9	2.3
Guinea-Bissau	5.3	11.8	3.8	5.8	9.3	7.3
Kenya	2.8	3.8	4.2	3.6	3.2	3.4
Lesotho	7.0	5.6	4.9	4.3	4.1	3.8
Madagascar	2.6	4.2	2.8	2.8	2.9	2.8
Malawi	3.8	2.2	1.7	1.7	1.9	2.3
Mali	4.7	6.7	7.8	6.5	6.6	6.7
Mauritius	3.3	5.7	6.4	5.9	4.7	4.2
Mozambique	6.0	4.9	5.3	5.9	4.7	4.6
Namibia	1.7	2.6	2.0	1.7	1.7	1.8
Niger	1.7	3.1	4.6	3.8	3.4	3.7
Rwanda	4.8	6.9	5.6	7.2	7.3	4.8
São Tomé and Príncipe	3.8	4.6	5.7	4.2	8.7	12.4
Senegal	2.8	3.7	5.0	5.3	5.1	5.0
Seychelles	0.8	1.4	1.4	0.7	0.8	0.9
Sierra Leone	3.0	3.0	2.0	3.7	3.2	2.6
South Africa	2.1	2.3	1.9	2.7	3.4	3.5
Swaziland	3.0	2.9	2.0	1.6	1.4	1.4
Tanzania	4.6	8.3	10.1	9.3	8.1	6.5
Togo	2.4	3.4	2.6	4.0	3.4	3.2
Uganda	6.9	7.2	7.8	8.3	8.1	7.5
Zambia	1.3	4.1	1.7	1.9	2.0	2.0
Zimbabwe	0.9	0.5	0.5	0.9	0.4	0.5
Sub-Saharan Africa	**3.7**	**3.8**	**3.4**	**4.2**	**4.8**	**5.6**
Excluding Nigeria and South Africa	**3.8**	**4.4**	**4.2**	**4.1**	**4.1**	**4.1**
CFA franc zone	2.2	3.5	3.4	3.6	3.9	4.6
WAEMU	3.3	5.4	5.1	4.8	4.4	4.2
CEMAC	0.9	1.6	1.6	2.3	3.4	5.1
SADC	3.5	3.6	3.1	3.4	3.7	3.7
COMESA	2.5	2.9	2.8	2.9	2.9	2.9
Oil-exporting countries	3.9	3.3	2.6	4.7	6.3	8.4
Oil-importing countries	3.6	4.1	3.8	3.9	4.0	4.0
HIPC Initiative (completion point countries)	3.7	5.1	6.1	5.7	5.2	4.7
Fixed exchange rate regime	4.8	5.3	4.7	4.5	4.6	5.2
Floating exchange rate regime	3.3	3.3	2.9	4.1	4.9	5.7

Sources: IMF, African Department database, March 29, 2006; and World Economic Outlook (WEO) database, April 10, 2006. Data for 2006 are IMF staff projections.

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