

Sub-Saharan Africa

GDF 2003 Summary



Global themes

- Global growth is projected to accelerate steadily from 1.7% in 2002 to 2.3% in 2003 and 3.2% in 2004. Importantly, this view incorporates the effect of a relatively quick military conflict in Iraq. While very much a recovery, the expansion now underway is quite subdued by historic standards, especially given the sizeable stimulus from policy.
- The past few years has seen a fundamental shift in the pattern of private sector financing for developing countries, away from debt flows to equity-related FDI flows. The drop in debt finance has been partly driven by lower demand on the part of many developing countries seeking to lessen their vulnerability to swings in volatile debt finance, as well as a reduced supply of debt from banks and bondholders. The rise in FDI reflects greater optimism about globalization, the spread of FDI in services and heavy privatization.
- While this rotation from debt to equity should continue, the signs are that the low point in the current private debt cycle came in 2002Q3, and that net debt flows to developing countries are likely to turn positive again in 2003 for the first time in three years. While most likely, the overall buoyancy of FDI flows should not be taken for granted, however. Flows are already off their peak; privatization-related revenues have fallen sharply; and FDI in telecom and other areas of infrastructure has slumped. Moreover, rates of return on both FDI and in the corporate sectors of developing countries have generally fallen in recent years.
- Workers remittances have become an increasingly important component of global development finance, having risen to \$80 billion in 2002. They have some very attractive financial features. They are more stable than private debt flows and are less concentrated in the major middle-income countries than FDI flows.
- Aid flows to developing countries probably rose in 2002 and will continue to do so in 2003 and beyond, in line with the commitments made at the Monterrey Conference in March 2002. Emergency financial support (e.g. IMF) is likely to fall in 2003, on the presumption that no new major debt crises are in the offing. In between, official non-concessional lending (which includes the IBRD) is generally quite weak. Note that net IBRD lending was -\$4.1 billion in 2002 and is on track for an even larger decline in 2003.

Regional themes

- GDP in Sub-Saharan Africa rose by 3.2 percent in 2001 and 2.6 percent in 2002, representing only minimal increases in per capita terms.
 - In 2001 the collapse of world trade and fall non-oil commodity prices depressed growth
 - In 2002 non-oil commodity prices rose, but domestic conditions worsened in some countries, for example political strife in Nigeria, Cote d'Ivoire, and Zimbabwe; unfavorable weather in Eastern and Southern Africa; and the ongoing impact of HIV/AIDS on productive capacity.

- Growth is forecast at 3 percent in 2003, and to accelerate only modestly through 2005, assuming more normal weather patterns, a pick-up in external (especially European) demand, and higher commodity prices.
- External finance comes mostly from FDI (\$7 billion in 2002) and bilateral grants (\$10.4 billion). Net debt flows were near zero. Only South Africa accesses international markets.
- Residents' net acquisition of foreign assets (including errors and omissions) exceeded \$3 billion for the fourth year in a row. Improvements in investment climates would help channel more domestic savings to local investment.

Other key regional points to note

- The rate of return on FDI projects was highest in Sub-Saharan Africa among the six geographical regions, perhaps because oil and mining generate large rents, or because given the high risks, investors choose only high-return projects. (Note that only 3 Sub-Saharan African countries are included in the sample, however).
- Net official development assistance fell in 2001, to \$52.3 billion, or \$4 billion below the level of 1999. There is some indication that concessional flows rose in 2002, with increased assistance to Afghanistan and for debt relief to the HIPCs.
- The European Union, the United States and other donors have announced plans that, if realized, would increase aid to 0.26 percent of industrial countries' national income by 2006 (from 0.22 percent in 2001). The G-8 summit agreed that up to 50 percent of the additional funds would be targeted to Africa.
- New ideas were mooted to increase the effectiveness of aid:
 - The United Kingdom proposed an International Financing Facility to tap the international bond market, based on pledges received from donors, to bring forward planned increases in aid.
 - The United States will channel its increased assistance through a new Millennium Challenge Account that would allocate funds based on indicators of governance, social sector expenditures and outcomes, and economic policy.
 - The approval of IDA-13 included authority for increased grant resources and steps to strengthen monitoring and evaluation of the use of IDA funds.
- The expansion of aid during the 1980s led to concerns about the potential for high aid levels to impose undue administrative costs, undermine domestic institutions, or fuel corruption. While these are legitimate concerns, there is no reason to reduce aid levels to countries with strong policies.
 - The number of countries with aid/income levels above 20 percent (most of which are in Africa) declined with the overall fall in aid in the 1990s.
 - Countries with high aid levels have achieved respectable increases in per capita GDP, although still below the rates of growth required to meet the MDGs.
 - Aid programs should strive to increase effectiveness and reduce the burden on government administration by devoting more resources to budgetary support, channeling aid resources through government rather than separate project units, reducing the number of donors operating in individual sectors and improving coordination, and involving civil society in aid programs and policies.

Table A.7 Sub-Saharan Africa outlook in summary, 1981–2003

Real economy (percent change, unless stated)	1981–90	1991–00	1997	1998	1999	2000	2001	2002e	2003f
Real GDP growth	1.7	2.2	3.4	2.3	2.5	3.3	3.2	2.6	3.0
Private consumption per capita	-1.0	-0.5	4.0	-1.7	0.0	-2.1	1.0	0.1	0.4
GDP per capita	-1.2	-0.4	0.6	-0.2	0.1	0.8	0.7	0.3	0.6
Population	2.9	2.6	2.8	2.6	2.4	2.5	2.4	2.4	2.3
Gross domestic investment/GDP ^a	18.6	17.0	17.6	18.3	17.8	18.2	18.9	19.4	19.8
Inflation ^b	9.6	9.5	7.2	5.6	5.4	6.8	5.6	4.3	3.9
Central government budget balance/GDP	-4.5	-4.6	-2.8	-3.1	-2.8	-1.4	-1.8	-2.2	-2.4
Export market growth ^c	4.8	14.3	9.1	8.1	6.7	10.7	0.2	2.2	5.6
Export volume ^d	1.5	4.3	5.1	3.1	3.5	5.4	3.8	2.1	7.3
Terms of trade/GDP ^e	0.2	-0.1	-0.3	-2.0	1.3	2.1	-2.0	1.5	-0.6
Current account/GDP	-2.7	-2.0	-2.9	-5.9	-3.6	0.1	-1.7	-1.4	-1.5
Workers remittances (billions of dollars)	—	—	3.8	3.6	3.5	2.0	2.4	4.0	—
Memorandum items									
GDP growth: Sub-Saharan Africa excluding South Africa	2.2	2.7	4.1	3.8	2.9	3.2	3.5	2.4	2.9
Oil exporters	2.0	2.6	4.3	3.6	2.0	4.2	4.3	1.8	3.6
CFA countries	2.1	2.4	5.2	4.8	2.2	2.2	3.1	2.0	2.1
External Financing and Debt (billions of dollars unless stated)									
	1995	1996	1997	1998	1999	2000	2001	2002e	2003f
Net inward FDI	4.3	4.3	8.1	6.5	8.1	6.1	13.8	7.0	7.0
Net inward portfolio equity flows	2.9	2.4	5.6	8.6	8.9	4.0	-1.0	0.7	1.0
Net inward debt flows	7.6	3.2	4.5	-1.4	-0.9	-0.9	-1.0	0.2	-0.5
From public sources	3.5	2.0	1.4	0.5	0.4	0.5	0.3	1.6	1.0
From private sources	4.1	1.2	3.1	-1.9	-1.2	-1.4	-1.3	-1.4	-1.5
Gross market-based capital inflows	7.8	7.8	7.9	6.4	10.0	12.2	11.1	9.9	12.0
Total external debt	235	231	221	228	215	211	203	—	—
Medium- and long-term	195	189	180	186	174	178	171	—	—
Short-term	41	43	41	42	41	33	32	—	—
Owed by public-sector borrowers	183	178	171	178	164	167	158	—	—
Owed by private-sector borrowers	52	53	50	51	51	44	45	—	—
Owed to public-sector creditors	146	144	138	146	135	141	135	—	—
Owed to private-sector creditors	89	87	83	83	80	70	68	—	—
Gross foreign exchange reserves	17.9	20.6	28.1	26.8	28.2	34.0	34.3	—	—

— Not available.

Note: e = estimate, f = forecast.

a. Fixed investment, measured in real terms.

b. Local currency GDP deflator, median.

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

d. Goods and non-factor services.

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

Table A.28 External financing: Sub-Saharan Africa, 1997–2003
(billions of dollars)

	1997	1998	1999	2000	2001	2002e	2003f
Current account balance	-9.9	-19.0	-11.3	0.4	-5.1	-4.3	-5.4
as a percentage of GDP	-2.9	-5.9	-3.6	0.1	-1.7	-1.4	-1.5
Financed by:							
Net equity flows	13.7	15.1	17.0	10.1	12.8	7.7	8.0
Net FDI inflows	8.1	6.5	8.1	6.1	13.8	7.0	7.0
Net portfolio equity inflows	5.6	8.6	8.9	4.0	-1.0	0.7	1.0
Net debt flows	4.5	-1.4	-0.9	-0.9	-1.0	0.2	-0.5
Official creditors	1.4	0.5	0.4	0.5	0.3	1.6	1.0
World Bank	1.7	1.3	1.1	1.5	1.8	1.9	—
IMF	-0.5	-0.3	0.0	0.1	0.1	0.5	—
Others	0.3	-0.5	-0.7	-1.0	-1.6	-0.8	—
Private creditors	3.1	-1.9	-1.2	-1.4	-1.3	-1.4	-1.5
Net medium- and long-term debt flows	-0.4	-1.4	-0.7	-0.3	-0.2	-0.9	—
Bonds	1.0	0.3	1.2	1.0	1.9	0.6	—
Banks	-1.6	-1.3	-1.7	-0.8	-1.6	-1.1	—
Others	0.2	-0.4	-0.2	-0.5	-0.5	-0.4	—
Net short-term debt flows	3.5	-0.5	-0.6	-1.1	-1.1	-0.5	—
Balancing item ^a	-0.8	3.9	-3.4	-3.6	-6.4	-3.7	0.9
Change in reserves (- = increase)	-7.6	1.4	-1.5	-6.0	-0.3	0.0	-3.0
Memo items:							
Bilateral aid grants (ex. technical cooperation grants)	9.6	10.1	10.0	10.0	9.9	10.4	10.0
Net private flows (debt + equity)	16.8	13.2	15.8	8.7	10.5	6.3	6.5
Net official flows (aid + debt)	11.1	10.6	10.3	10.6	10.2	12.0	11.0
Workers' remittances	3.8	3.6	3.5	2.0	2.4	4.0	—

— Not available.

Note: e = estimate; f = forecast.

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