I. Overview and Background[1]

External environment

The global economic environment continued to provide little stimulus for SSA in 2003.[2] While world economic growth increased from 3 percent in 2002 to 3.8 percent last year, world import demand did not keep pace and expanded by only 3.2 percent in the advanced economies, where most SSA exports are marketed. In addition, the external terms of trade for the region as a whole were largely unchanged, improving by about 2 percent for the oil exporters and declining by a similar amount for the non-oil economies. Some non-oil exporters received a boost to their terms of trade from stronger commodity prices, especially cotton (up 37 percent), groundnuts (up 30 percent), and robusta coffee (up 25 percent). However, despite these price increases, most key commodity prices remain very low relative to historical averages. On the positive side, world inflation remained low, helping contain inflation in SSA countries with exchange rate pegs. In addition, lower world interest rates kept domestic interest rates in SSA lower than would otherwise have been.

The external environment is expected to provide a modest boost to growth in Africa in 2004. World economic growth is forecast to rise to 4.6 percent and world demand for imports is projected to increase by 5.4 percent. World oil prices are projected to rise by 4 percent (in U.S. dollar terms), while manufactures and nonfuel commodity prices are forecast to rise by about 7½ percent. Against this background, the terms of trade for SSA as a whole is projected to increase by less than 1 percent.

Economic developments and outlook

Average real GDP growth in sub-Saharan Africa (SSA) countries slowed to 2.8 percent in 2003, down from 3.4 percent in the previous year. This slowdown occurred despite the uptick in world economic growth and world trade. Slower economic growth was fairly widespread outside the oil economies,[3] and, with the region's population expanding at about 3 percent a year, real per capita GDP was stagnant overall. While the agricultural sectors of as many as ten countries were adversely affected

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[1] The main source of data for the Regional Economic Outlook is the African Department WEO/WETA data base as of February 10, 2004. The data base excludes Eritrea and Liberia, for which comprehensive data are not available.

[2] For the purpose of the Regional Economic Outlook, the term Sub-Saharan Africa refers to the 44 countries covered by the IMF's African Department, It excludes Mauritania, Djibouti, Somalia and Sudan, which are covered by the IMF's Middle East and Central Asia Department.

[3] The oil economies are Angola, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, and Nigeria. São Tomé and Principe does not yet produce oil, but oil-related revenues are being generated from the sale of exploration and development concessions.

by drought in 2003, others rebounded from the adverse weather of 2002, and agricultural performance does not appear to explain the widespread slowdown in growth. Instead, preliminary data indicate that slower growth stemmed, primarily, from declining growth rates in industry and services. Nonetheless, some economies (notably some oil producers and most of the HIPC Initiative completion point countries)[4] continued to grow at rates of 5 percent or more and could be on their way to realizing the income-based poverty targets set forth in the Millennium Development Goals (MDGs).

Real GDP growth is expected to pick up to 4.2 percent in 2004, the highest rate since 1996. This positive outlook rests on some key assumptions, such as favorable weather, the resolution or amelioration of conflicts, the full implementation of policies set forth in governments' economic programs (most of which are being supported by the Fund's Poverty Reduction and Growth Facility (PRGF)), and increases in total factor productivity. There are risks that some of these assumptions may not hold. Nonetheless, economic growth of this magnitude has been experienced before and is in line with the expected increase in growth in the rest of the world.

Inflation remained at bay in most SSA countries in 2003. Inflation rates were 10 percent or lower in nearly three-fourths of the countries in the region. While the average inflation rate for the region as a whole increased by 1 percentage point to 13.3 percent, this largely reflected rapidly rising inflation in Zimbabwe. Excluding countries with a history of exceptionally high inflation rates (Angola, the Democratic Republic of Congo (DRC), and Zimbabwe), inflation averaged just under 7 percent in 2003, as it has for the past five years. The success in containing inflation reflects lower world inflation (for countries with pegged exchange rates – notably the members of the CFA franc zone) and prudent financial policies (in those countries with flexible exchange rates).

External current account deficits generally contracted among the oil-producing countries and expanded for the other countries in the region. External balances were not much affected by the terms of trade, which increased only moderately for the oil exporting countries and deteriorated slightly for the others. Official and private capital and financial flows were sufficient to cover the current account deficits of most of the countries in the region, and most central banks have adequate levels of international reserves. External debt burdens, while still heavy in many countries, are easing.

Fund involvement in SSA

The Fund remained substantially engaged in SSA in 2003, and Fund net lending to SSA increased for the second consecutive year. A total of 26 countries had PRGF-supported programs at some

[4] The six countries to have reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative are Benin, Burkina Faso, Mali, Mozambique, Tanzania, and Uganda.

point during the year[5], most of which remained on track, in the sense that at least one disbursement was made during the year. The exceptions were Côte d'Ivoire, Kenya, The Gambia, Guinea, Guinea-Bissau, São Tomé and Príncipe, and Zambia. Kenya, whose 2000 PRGF-supported program quickly went off track, succeeded in obtaining a new one in November 2003. The programs for Chad, Guinea-Bissau, Mali, Mozambique, SãoTomé and Príncipe, and Zambia expired.[6] Ex post program evaluations (in the context of prolonged use of Fund resources) were discussed by the Board for Mali, Mozambique, and Tanzania. A low-access successor PRGF arrangement was approved for Tanzania in August, and similar arrangements are being considered for the other two countries. An ex post evaluation of Chad's program is under way.

The Fund continued to be heavily involved in helping SSA countries progress toward their completion points under the Heavily Indebted Poor Countries (HIPC) Initiative. Benin and Mali reached their completion points in March 2003.[7] In addition, the DRC reached its decision point under the HIPC Initiative in July. Twenty-three SSA countries have now done so. The Fund provided about SDR 101 million in HIPC Initiative debt relief to the region in 2003, bringing total Fund assistance to SSA under the initiative to about SDR 926 million (US$1.3 billion). Three countries (Ethiopia, Niger, and Senegal) are expected to reach the completion point under the HIPC Initiative in April 2004. Another five (Chad, Cameroon, Ghana, Madagascar, and Malawi) could reach the completion point during 2004 if their PRGF-supported programs remain on track and the completion point conditions are met. Another nine countries may require HIPC Initiative relief but have not yet reached the decision point, owing to arrears and/or domestic conflict.

The Fund is reexamining its role in low-income countries (LICs), so as to better assist countries design and implement policies to achieve the MDGs. This effort includes the alignment of PRGF-supported programs, notably the underlying macroeconomic frameworks and policies, with the objectives of countries' poverty reduction strategy papers (PRSPs) and national budgets. The Fund will continue to work with countries to design appropriate financing packages, focusing on obtaining official grants to the maximum extent possible, to ensure that achieving the MDGs does not undermine macroeconomic or external debt sustainability.

[5] Some programs expired during the year, and others were approved. Twenty-one SSA countries had programs at the beginning of 2003 and 22 had programs at the end.

[6] Chad's program formally expired on January 4, 2004 after a one-month extension. It expired without completion of the final review.

[7] Mali reached its completion point under the original HIPC Initiative in September 2000.

Political developments

Political liberalization and multiparty elections are increasingly becoming the norm in the African political landscape. This political evolution is facilitating a general strengthening of transparency, accountability, good governance, program ownership, and civil society participation in PRSPs. In Kenya, after 40 years of single-party rule, opposition members came to power in 2003 in an election that was deemed to be free and fair. Nigeria also made its first civilian-led transition of power since independence, and Rwanda held its first presidential election since 1994. In 2004, Botswana, Ghana, Malawi, Mozambique, Namibia, and South Africa are scheduled to hold presidential elections.

Some countries, however, continue to experience substantial political problems. There were coups in the Central African Republic (C.A.R.), Guinea-Bissau, and São Tomé and Príncipe, and the elections in Guinea and Togo were controversial. In addition, political liberalization has stalled or is proceeding slowly in Eritrea, Equatorial Guinea, Swaziland, and Zimbabwe.
In a break with its predecessor, the Organization of African Unity (OAU), the African Union (AU) is being proactive in promoting democratic institutions in the region (Box 1).

Conflict management and resolution

Conflict continues to be a major cause of slow economic growth in Africa, but important progress in resolving conflicts was made in 2003, owing, in part, to the vigorous mediation efforts of African leaders (Box 2). In the DRC, the peace accord and the formation of an interim government in June 2003 were followed by negotiations on power sharing, signaling the end of the five-year war. In Liberia, continued mediation efforts by African countries, supported by the UN and an African-led peacekeeping force, led to the swearing in of a two-year transitional civilian government. In Rwanda, voters supported a draft constitution designed to prevent genocide. In Burundi, the midterm presidential rotation occurred as scheduled in April, in the context of the power-sharing arrangement agreed under the 2000 Arusha accord. In addition, the government concluded peace negotiations in January 2004 with the last of the rebel factions, establishing the basis for a lasting peace.[8] In Côte d'Ivoire, the fragile peace has been holding up, and there are signs that a national reconciliation could be realized in 2004.

Drought and famine

Parts of the region have suffered from severe drought during the past two years. While many countries are rebounding from the drought of 2002, poor weather extended into 2003 in some regions, adversely affecting agricultural production in at least ten countries, with adverse consequences for food security and economic growth. Particularly hard hit in 2003 were Ethiopia, Eritrea, and Rwanda, and, to a lesser extent, Tanzania and Uganda. The rains of late 2003 were

[8]The Fund Board approved the Burundi government's request for a three-year arrangement under the PRGF on January 23, 2004.

Box 1. From OAU to AU: A Political Economy Approach

In July 2002, the Organization of African Unity (OAU) was replaced by the African Union (AU) after 39 years in existence. Considering that the AU would be facing similar politico-economic and social challenges, one may ask: why did the OAU fail to accomplish what the AU promises to achieve?

The OAU in Brief

The OAU was instrumental in promoting Pan-Africanism and achieving sovereignty for the remaining colonized African countries. The overall mission was perhaps accomplished when the apartheid regime in South Africa was abolished in the early 1990s (South Africa became the last and 53rd member of the OAU in 1994, compared to 32 founding members in 1963.)

During the cold war period, the OAU managed to maintain diplomatic unity among its member states and prevented the continent from falling in two opposing camps. However, as economic mismanagement, poor governance, and conflicts stifled many African economies, it became increasingly evident that the OAU did not have the mandate to implement the required political and economic reforms. This was signified by the constitutive acts of the OAU emphasizing the sovereignty of states and non-interference in the internal affairs of other member countries. Consequently, the OAU could only play a very limited role in safeguarding political stability and promoting good governance. Economic initiatives and strategies, such as the Lagos Plan of Action (1980) and the Abuja Treaty (1991) which established the African Economic Community, did not decisively help African countries cope with the rising economic challenges.

The African Union

As a new organization, the AU therefore saw its chief mandate as one of building on the gains made by the OAU to promote democracy and good governance, and to foster stronger economic growth. Roughly following the EU model, the AU aimed at eventually establishing an African common market and economic and political union. To complement these efforts, the New Partnership for Africa's Development (NEPAD) was put into effect specifically to promote good political and economic governance, and to enhance productive links with Africa's development partners. In order to create consensus within the AU leadership, in 2003 at the AU summit in Maputo, it was agreed that the NEPAD initiative would be managed within the AU structures.

Unlike the OAU's policy of non-interference, the AU, indirectly through the African Peer Review Mechanism (APRM), will have the mandate to promote the observance of the Declaration on Democracy, Political, Economic and Corporate Governance (of NEPAD), and to intervene where conflicts arise. By endorsing the APRM, participating member states will voluntarily agree to be monitored to ensure compliance with the established guidelines. So far, 17 countries have signed up for the review process. At the first African Peer Review Forum in Kigali, in February 2004, Ghana, Kenya, Mauritius and Rwanda agreed to be the first group of countries to be reviewed under the APRM. The AU also intends to involve in these efforts the NGOs, unions, and the civil society to gain credibility and thus secure the broad ownership of the reforms.

While NEPAD emphasizes African ownership of the NEPAD Action Plan, it also calls on Africa's development partners to support the plan by providing further development assistance and debt relief, coupled with the provision of better market access for Africa's exports. In response to these efforts, the G8 leaders adopted, in June 2002, the Africa Action Plan that promises support for African countries "whose performance reflects the NEPAD commitments." Furthermore, IFIs and other aid agencies have also applauded the NEPAD initiative and have committed themselves to assisting Africa through increased funding and policy advice. The AU has helped foster new enthusiasm for the NEPAD Action Plan that above all aims at strengthening the continent's capacity to tackle the various impediments standing in the way of faster development.

Note: The main author of this box is Behrouz Guerami

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More information at: http://www.africa-union.org

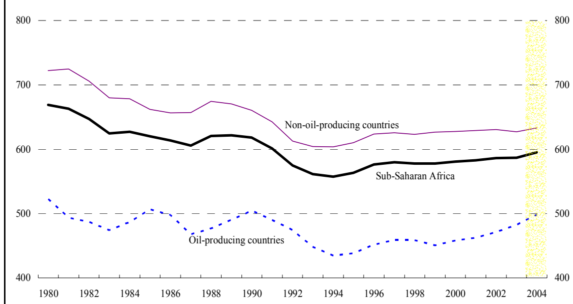
favorable in many countries, but there are preliminary indications that some southern African countries could be in for another year of poor harvests in 2004.

The recurrent nature of drought in SSA has led AFR staff to take a new look at how to incorporate crisis prevention and response into the design of PRGF-supported economic programs. In Ethiopia, financial targets set under its PRGF-supported program (notably, domestic financing of the fiscal deficit) were eased in 2003 to accommodate a higher level of government spending on food security. The AFR staff continues to look for other effective means to help prevent and manage food crises (Box 3).

Poverty trends and the PRSP process

Recent data reinforce the enormity of the challenge to reduce mass poverty in SSA, and progress has been mixed during the past decade. According to the2003 *Human Development Report* of the United Nations Development Program (UNDP), the share of the SSA population living on less than a dollar a day increased from 47.4 percent in 1990 to 49.0 percent in 1999. The absolute number of people living on less than a dollar a day increased by 25 percent to 315 million. Of the 175 countries for which the UN compiles its human development index (HDI), Seychelles and Mauritius are the only SSA countries in the top 100, and SSA countries occupy the bottom 21 ranks.[9] HDIs have fallen for 14 SSA countries (accounting for 36 percent of the regional population) since 1995, by as much as 12.5 percent in the case of Zimbabwe. Life expectancy fell for half of the countries in the region (with the greatest relative declines occurring in Botswana, Zimbabwe, and South Africa), reflecting the impact of HIV/AIDS.

Figure 1. Real Per Capita GDP, 1980-2004[1]
(In U.S. dollars, at 1990 prices, using 1990 exchange rates)



[1] Shaded area indicates projections.

There are reasons for some optimism, however. The first half of the 1990s was a period of economic contraction for the region as a whole. Since 1994, real per capita GDP has been increasing by about 1 percent per year. In addition, the UNDP human development index increased in the second half of the 1990s in 21 of the 35 countries for which data are available, accounting for 57 percent of the SSA population. The greatest relative increase was realized in Rwanda, with notable improvements in Uganda and Ethiopia as well. Finally, as noted below, a significant number of countries have sustained real economic growth rates of 5 percent or more for the past ten years and could be

[9] Seychelles and Mauritius are ranked 36 and 62, respectively. The next-highest-ranked SSA country is Cape Verde, at 103. The components of the HDI are life
(continued)
expectancy, adult literacy, school enrollment, and per capita income.

Box 2. The Challenge of Post-Conflict Reconstruction in Sub-Saharan Africa

Civil war is 'development in reverse'

Perhaps, one of the greatest obstacles to economic growth and sustainable development in sub-Saharan Africa is the high incidence of civil war. When poverty is associated with the extreme collapse of law and order, as in the case of civil wars, these two forms of development failures become self-reinforcing and produce the most dangerous development trap. Sadly, this has been a key feature of the growth experience of sub-Saharan African countries in recent times. According to the Stockholm International Peace Research Institute (SIPRI) Yearbook (2000), out of the 27 active armed conflicts that occurred in the world in 1999, about 41 percent were civil wars taking place in sub-Saharan Africa. In the Great Lakes region, almost all the countries have experienced some periods of violent conflict, including Burundi, Rwanda, and the many countries embroiled in the conflict in the Democratic Republic of Congo. The effects of civil wars on economic growth and development can hardly be overemphasized. At the macroeconomic level, civil wars reduce savings and divert resources from domestic investment. Civil wars also destroy human and non-human capital and distort the decision making process by economic agents. Civil wars are 'development in reverse'.

Explaining the risk of conflict in Sub-Saharan Africa

A number of factors have been identified as relevant in explaining armed conflict in sub-Saharan Africa (SSA). These factors include the nature of the African states after independence, external intervention in the internal affairs of African countries, human rights abuses by African governments, and ethnic and religious grievances. The economic theory of civil war [Grossman, 1999; Collier and Hoffler, 2002], however, sees civil wars in Africa as being caused by poor growth, poverty, and the abundance of natural resources. In their analysis of the causes of civil wars, Collier and Hoffler [2002] identify economic opportunities as more important than grievances in fuelling armed conflict. Yartey [2003] extends the Collier –Hoffler (CH) analysis by applying the CH model to SSA and introducing measures of institutional quality. The results show that the difficulties faced by many African countries in developing strong institutions are crucial causal factor in most civil wars. The results further show that:

- Africa's high levels of poverty and low rates of growth have been crucial causal factors in most of its civil wars.
- The abundance of natural resources in Africa is associated with the high risk of civil war because they offer rebels an opportunity to finance themselves.
- Civil wars in Africa are more likely in countries with large populations.
- Peace duration is an important factor explaining the risk of civil war in sub-Saharan Africa. The longer we are able to prolong the peace, the lower is the risk of further conflicts.
- Social fractionalization is negatively associated with the risk of conflict, implying that Africa's ethnic diversity, in principle, should promote peace.

These results are in general agreement with most empirical results on the causes of civil wars.

Reducing the risk of renewed conflict

According to Bigombe et al [2000] civil wars always end but they usually restart. In sub-Saharan Africa, about 50 percent of peace restorations have lasted less than ten years. For post-conflict countries, the optimal strategy should be to prevent new war. The longer the duration of the peace period, the lower the risk of further conflict. It is important to emphasize that the end of a conflict does not necessarily imply that problems are solved. Post conflict countries will have to go through periods of post-conflict reconstruction. In addition, the risk of conflict is likely to be higher in post-conflict countries because the conflict is likely to have caused some growth indicators, like per capita income, to deteriorate. It has been estimated that, during a war period, the per capita growth rate of a country is reduced by 2.2 percentage points. Therefore, in post-conflict countries, the main priority should be to support the peace agreements that exist and to prevent past tensions from reoccurring. Post-conflict economic policies should focus on social reconciliation and reconstruction and tackle macroeconomic imbalances. The fact is that post-conflict countries take a long time to rebuild their institutions. In this regard, assistance to post-conflict countries in the form of debt relief initiatives and budgetary support would speed up reconstruction.

Possible Avenues for Conflict Prevention

Reducing primary commodity dependence could help prevent civil wars. In the medium term, African governments should take positive steps to diversify their economies. Collier identifies three factors that promote diversification: growth, aid, and policy. The development of good economic policies is paramount. It is important to emphasize that economic growth alone is not sufficient for conflict prevention and peace building. Growth must be combined with policies that deliberately attack poverty and promote education and health. This requires, at the minimum, an appropriate balance between short-term stabilisation and adjustment measures, and longer-term considerations, including capacity building, institutional development and human resources development. An important approach to conflict prevention is the development of good quality institutions. The evidence that good quality institutions become very effective when a country reaches middle-income level provides strong support for this policy option.

Note: The main author of this box is Charles Amo Yartey.

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making substantial progress in reducing income-based poverty.

In 2003, the Boards of the Fund and Bank endorsed the PRSPs of 5 SSA countries—Benin, Cameroon, Chad, Ghana, and Madagascar**—**bringing to 18 the total number of countries with Fund/Bank-endorsed PRSPs. The Boards also endorsed the interim PRSP for the DRC (bringing the total to 28). There are still 16 countries that have not had PRSPs or interim PRSPs approved by the two institutions, but many of these are well advanced in developing their poverty reduction strategies.

HIV/AIDS

SSA remains by far the region worst affected by HIV/AIDS in the world, according to the Joint United Nations Program on HIV/AIDS (UNAIDS) and World Health Organization (WHO).[10] An estimated 26.6 million people, 3.8 percent of the population, were living with HIV in 2003, including 3.2 million persons newly infected.[11] An estimated 2.3 million persons died from AIDS in 2003.

The prevalence of HIV varies considerably, ranging from 1-2 percent of the population in The Gambia, Mali, and Niger, to about 40 percent in Botswana and Swaziland. The latter two countries have seen their population growth rates approach zero, and current projections for Botswana see its population shrinking in the coming years. In South Africa, where an estimated 10-12 percent of the population is living with HIV, UNAIDS/WHO estimates that death rates will continue to rise over the next five years. There is some evidence that HIV prevalence is leveling off across much of SSA, albeit at very high rates of infection. However, this "stabilization" largely reflects the combination of high AIDS mortality rates and HIV incidence. Some countries (such as Senegal, Niger, and Mali) have been highly successful in keeping the rate of HIV/AIDS from rising, but only Uganda has demonstrably succeeded in reducing rates of infection. UNAIDS reports that few countries have national orphan policies in place, or any programs for the prevention of mother-to-child transmission, a fact that will have long-lasting implications for social cohesion, health care costs, and economic growth.

International trade—The Doha Round

The countries of SSA undertook significant trade liberalization in the 1990s (Box 4). More often than not, liberalization took place in the context of Fund-supported programs. Still, export growth in SSA has been less than robust, reflecting both the need for additional trade reform in the region and, importantly, the need for trade reform in the advanced economies.

The Doha Ministerial Declaration of November 2001 held out the promise of fundamental and far-reaching changes in international trade practices that

[10] UNAIDS/WHO, Aids Epidemic Update, December 2003.

[11] This figure is lower than the one reported in the previous SSA Regional Outlook. This is due primarily to the downward revision in the incidence of HIV in Zimbabwe.

Box 3: The Persistent Problem of Drought and Famine in Africa

Background: Famines have been endemic in African since the late 1960s. They have been triggered by a combination of factors including: natural damage (drought, flood); economic vulnerability (poverty, fragmented markets); and political failure (war, government policies, and inadequate international response). Droughts can affect macroeconomic stability, undermine growth, and increase poverty. The prevalence of HIV/AIDS in Africa is changing the nature of famine by decreasing agricultural productivity, increasing people's vulnerability to shocks, and threatening social stability.

Impacts: Drought exacerbates income and asset inequality. There is often a huge destruction of assets, the death of cattle in particular. This leads to years of suppressed consumption while stocks are rebuilt. Distress sales of assets (jewelry, animals and land) leads to long-term household insecurity. Social support systems disintegrate. Families become divided in search of work or support and children may be sold. The deepening recession in the rural economy affects production and exchange, employment, and income of non-farm households as well. Landless farmers, craftsmen, and traders experience shrinking demand for their work, goods, and services, while grain prices rise. Pastoralists and fishermen are vulnerable as they rely on the exchange of meat and seafood to obtain cheaper grain calories. In the dynamics leading to famine, the terms of trade turn sharply against producers of animal products. In **Ethiopia's** famine of 1972-74, the caloric terms of trade declined by 85% against animal products in some areas. By contrast, local producers of grain and grain merchants unaffected by drought may be net beneficiaries.

Crisis prevention and response: Key prevention measures include management of food stocks; the buildup of international reserves; contingent expenditure provisions in the national budget; creation of safety nets; and supporting asset markets to promote private savings. A better understanding of how drought and famine affect short- as well as long-term growth is also required. For example, impacts may be just short-term if only crops are affected. However, if cattle die, there will be long-term impacts. Irregular periods of drought are inevitable and economic projections should consider this. An increased focus on structural reforms and governance would help reduce vulnerability to drought and famine. Moreover, government spending should be reviewed to ensure that drought mitigation investments are protected. In **Malawi,** in 2001, there was a major shortfall of maize production due to irregular weather, a scaling back of a starter pack program of free seeds and fertilizers, and a failure of the Early Warning System (EWS) to indicate a food shortfall. In response, the government established a food security policy with the assistance of civil society organizations and the international community. The policy is based on four pillars: an EWS to monitor the food situation and indicate shortages in advance; a physical buffer stock of maize; sufficient international reserves at the central bank to finance imports; and social safety net programs to meet food needs of the poor.

Crisis responses generally fall into two categories. In those instances where incomes have not been too adversely affected, but where the market has failed to supply food (e.g. to urban workers), the government may acquire food from surplus regions (by buying it from international markets or from local regions unaffected by the drought) and sell it to those who can afford it. This type of intervention addresses a local market failure and is self financing. Some governments receive grant food aid from international donors to resell to local markets and to use the proceeds to fund government food security projects. In the second instance, where people may have no income or assets (e.g. farmers in the drought affected region), the government may provide food free. If the food is supplied by international food aid, there are no direct fiscal or balance of payments impacts (though it can result in a decline in food prices for local farmers in areas unaffected by the drought). However, if the government buys food, or draws down existing food stocks, and gives it away, there will be implications for the budget and the balance of payments. Thus, Fund-supported economic programs in SSA need to be sufficiently flexible to enable governments to respond to these crises, and help prevent future crises, while still ensuring that macroeconomic stability is not undermined. In the case of **Ethiopia**'s PRGF-supported economic program, the Fund agreed to raise the implicit ceiling on the fiscal deficit to allow the government to undertake necessary humanitarian and food security operations.

Domestic policy implications: Widespread hunger is primarily related to poverty and disempowerment, and not to food self sufficiency. The focus should be on income and entitlement and policies are critical in determining a country's vulnerability to drought and famine. In many countries, budget revenues are not directly dependent on agriculture, but droughts can affect the budget through its impact on nonfarm incomes. Further, food crises can worsen the fiscal position and reduce the effectiveness of pro-poor programs, as well as a country's growth prospects. Structural issues like land reform and market structure should be addressed to reduce vulnerability and promote growth. For example, in **Ethiopia**, vulnerability to drought and famine is exacerbated by its land tenure system in which all land is owned by the state and the size of plots is limited, constraining production. Farmers cannot mortgage the land and cannot leave the agriculture sector without loosing their right to earn income from the land. However, the Ethiopian government has integrating a food security strategy within its broader agricultural development and poverty reduction strategy.

Recommendations for the international community:

- **Focus on longer-term structural policy solutions**: View drought less as an exogenous shock and more as a structural problem. The risk of drought should be explicitly built into overall development strategies, adjustment policies sectoral plans, and Fund programs. Well-tested models now exist for EWS and rapid responses, as well as activities to reduce drought vulnerability, such as improved infrastructure and water conservation and management.
- **Promote economic diversification:** Reverse the mono cropping trends of the past 30 years back to intercropping, and promote the diversification into more drought tolerant crops.
- **Improve donor coordination:** Improve donor coordination. Poverty Reduction Strategies (PRSs) should be used as framework for coordinating donors and local authorities, clearly identifying their respective roles (as was done **Malawi**). The PRS process can also provide a useful forum for a public dialogue on food security. The government and key donors including, the IMF, should be part of this dialogue to promote a better public understanding of institutions' roles and their policy advice with respect to crisis response and crisis prevention.

Note: The main authors of this box are Caroline Kende-Robb and Tove Strauss.

would have greatly benefited SSA countries. With regard to agricultural policy, the declaration called for "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. A group of African countries called for removal of agricultural subsidies in industrialized countries during the Cancun Ministerial of the WTO in September 2003. At the same time, they resisted the inclusion of new topics desired by the industrialized country members (the "Singapore issues" pertaining to competition and investment). The ensuing impasse led to the failure of the Cancun Ministerial. The Managing Director of the Fund subsequently sent letters to heads of state and government, urging them to resume negotiations to improve market access in all countries, to reduce agricultural subsidies in the advanced economies, and to be flexible with regard to new regulatory obligations. In addition, the Fund announced at the Cancun Ministerial that it was preparing an initiative to provide financial support in the context of Fund-supported programs to members that face a net negative impact on their balance of payments as a result of the implementation of the results of the Doha Round. While there is still an opportunity to conclude negotiations before the Doha Round expires in 2005, talks are stalled for the time being.

New Partnership for Africa's Development (NEPAD)

Africa's most recent and comprehensive response to the various development challenges it faces has been NEPAD, whose action plan was adopted by the AU in July 2002. NEPAD has an overall economic growth objective of 7 percent annually to 2015, and emphasizes peace and democracy, as well as economic governance, a dynamic private sector, and active international development partnerships. The needed improvements in political and economic governance are to be underpinned by a voluntary African Peer Review Mechanism (APRM), intended to foster the adoption of desirable policies, standards, and practices. This will be done through the sharing of experiences, reinforcement of successful best practices, and identification of capacity-building needs of AU member countries. By February 2004, 17 countries had signed the enabling memorandum of understanding. Apart from the APRM, the objectives of NEPAD, including regional development and integration, could be promoted at the national level through greater incorporation of those objectives and priorities in the PRSPs.

The vision of NEPAD is consistent with the Monterrey consensus on international development and is supported by the Group of Eight (G-8) Africa Action Plan. It is clear that the NEPAD growth objective and the broader challenge of approaching the MDGs for SSA will require a much more supportive international economic environment. Continued progress in improving aid effectiveness and enhancing its predictability, including through the ongoing work on donor harmonization, would certainly be helpful. The volume of aid needs to be increased substantially; unfortunately, aid is well below the level in 1990 and below the aid target of 0.7 percent of GNP. Increased support for NEPAD's economic objectives should also come through reducing agricultural

Box 4. African and Multilateral Trade Liberalization

The countries of sub-Sahara Africa undertook significant trade liberalization in the 1990s. For example, for eastern and southern Africa, the Fund's Index of Trade Restrictiveness declined on average from the highly restrictive category (over 9) to the moderately restrictive (over 5) category, with a number of regimes classified as open (for example, Mozambique, Uganda, Zambia) or moderately open (Botswana, Lesotho, South Africa).[1] At the same time, growth performance improved in Africa, though with a lag, illustrating the positive relationship between growth and openness.[2] Liberalization took place in lowering tariffs, simplification of the tariff regimes, reduction in effective protection and in non-tariff barriers, elimination/reduction in export and exchange restrictions, and in exemptions. Nonetheless, tariffs and other restrictions in Africa remain higher, on average, than in most other regions and there remains scope for further trade liberalization, particularly in services where liberalization has only just begun or is largely lacking.

Much of the trade liberalization (in goods) was unilateral, and not "bound" in GATT/ WTO.[3] Thus Africa did not get as much of the benefits of multilateral liberalization as was conceivable, though unilateral liberalization benefited its economies themselves. Africa did benefit from preferences, but in most cases the benefits are limited. The main exceptions are the EU's "Everything but Arms" Initiative and, for some countries, the African Growth and Opportunities Act of the US.

In fact, Africa did not participate at all in earlier rounds, and only marginally in the Uruguay Round, but hoped to do so in the Doha Round, which is supposed to be a 'development' round, tackling trade issues of concern to developing countries. Estimates of the welfare gains from eliminating barriers to merchandise trade in the Doha Round range from US$250 billion to US$620 billion annually, with about one half to one third accruing to developing countries.[4] For sub-Sahara Africa, the priority by far was agricultural liberalization by industrial countries including, importantly, the removal of the latter's subsidies. In addition, Africa faced tariff peaks and tariff escalation on products of export interest to it. Some net food importing African countries were concerned that multilateral liberalization would hurt them by raising food prices. The benefits of the Doha Round were, however, said to be much wider and greater than the concerns over the possible negative effects on a few food-importing countries. The experience of the Uruguay Round suggested that net food importing countries suffered minimal losses due to liberalization.

Three-quarters of the population of sub-Sahara Africa depend in one way or another on rural activities, and for many of its countries a few or a single crop constitutes the majority of its exports. Increased market access for agricultural products would thus directly address poverty reduction. Agricultural subsidies in industrial countries stand at over US$300 billion annually. Subsidies and other support to agriculture is running more than six times higher than development assistance.[5] A group of countries (including Burkina Faso, Mali, and Benin), which have a comparative advantage in cotton production and depend on it as their major export crop, are leading the African voice for removal of agricultural subsidies in industrial countries. Thus, African nations have joined other developing countries in the Doha Round in calling for more balance in trade relations between rich and poor countries, and policy coherence in the former's advice to the latter. They also joined other developing countries in resisting demands for inclusion of new topics—such as competition policy and investment rules—in the negotiations. The ensuing impasse led to the failure of the Cancun ministerial. To encourage a revival of the Doha Round, the heads of the International Monetary Fund and the World Bank have written to heads of WTO states about the potential benefit to the world economy of the Doha Round. Countries have yet to respond. In fact, some countries have begun to seek liberalization through bilateral trade deals. The benefits of multilateral trade liberalization are great, but remain currently elusive.

Improved market access will not be sufficient to engender a sustained growth performance of Africa, but it should form part of a broader strategy to promote a vigorous supply response, and thus contribute to higher economic growth and a more rapid reduction in poverty.

Note: The main author of this box is Naheed Kirmani.

[1] "Trade and Trade Policies in Eastern and Southern Africa" by Arvind Subramanian, et al., IMF Occasional Paper 196, Washington, D.C. 2000.
[2] For a discussion of the empirical relationship between growth and openness, see references in Box 6.6 of the World Bank's 2002 Global Economic Prospects.
[3] Binding means the tariff cannot be re-imposed without compensating other countries.
[4] "Market Access for Developing Country Exports" (SM/02/280, 8/28/02).
[5] World Bank, 2002 Global Economic Prospects.

subsidies in industrial countries and extending greater market access for Africa's exports. Leadership is needed, especially from the major economies, to resolve the impasse on the Doha Round and relaunch the global trade negotiations.

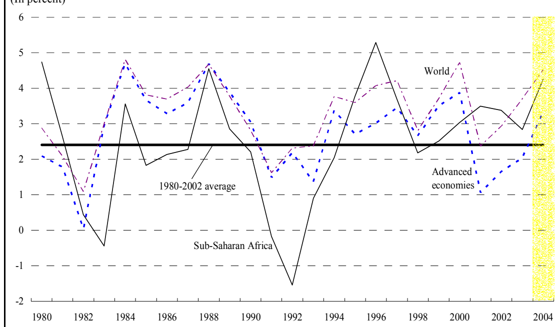
II. Economic Developments in 2003

Six basic themes emerge from the 2003 outturn: (i) average growth in the region remains far below the 7 percent estimated to be needed for the region as a whole to reach the MDGs on income-based poverty; (ii) growth experiences continue to be diverse, and some countries appear to be on a path of relatively strong sustainable growth; (iii) domestic policies matter—countries facing the same external environment are having very different growth experiences; (iv) conflict, civil strife, drought, and poor policies continue to be the causes of the worst growth experiences; (v) net exports have not been the source of economic growth, except in the oil exporting countries; and (vi) the achievement of growth rates sufficient to significantly reduce poverty will require higher rates of investment, which, in the absence of higher rates of national savings, will need to be financed through larger official and private capital flows.

Economic growth

Average real economic growth slowed to 2.8 percent in 2003 from 3.4 percent in the previous year. The slowdown occurred against the backdrop of an increase in world economic growth from 3.0 percent to 3.8 percent, and in the volume of world trade as well. The slowdown was fairly widespread, occurring in 23 of the region's countries. The more common causes of the slowdown were drought (notably in Ethiopia, Guinea, Mali, and Rwanda), conflict (Burundi, the C.A.R., the Republic of Congo, and Côte d'Ivoire), lower oil production (Angola and Congo), and economic mismanagement or poor governance (Seychelles and Zimbabwe).

Figure 2. Sub-Saharan Growth, 1980-2004[1]
(In percent)



[1] Shaded area indicates projections.

Real GDP growth in the region's oil-producing countries increased to an average of 6.0 percent in 2003. Sharply higher oil production levels in Chad, Equatorial Guinea, and Nigeria offset contractions in the other oil economies. Economic growth in Nigeria, with a fifth of the region's population, increased from 1.5 percent in 2002 to 5.9 percent in 2003, primarily on the basis a large increase in oil production.

Growth in the non-oil economies slowed from 2.9 percent in 2002 to 2.1 percent last year. Growth in South Africa declined from 3.6 percent to 1.9 percent, the slowest expansion since 1998. Rising gold and platinum prices induced a sizable increase in foreign portfolio investment. The resulting appreciation of the exchange rate choked off export growth and spurred import demand. The decline in net exports more than offset the increase in the growth of domestic demand and the