LlewellynConsulting
Independent Economic Advisers

PUMA ENERGY

THE CHANGING FACE OF AFRICA

WHITE PAPER 2013

CONTENTS

FOREWORD

We are pleased to have commissioned *The Changing Face of Africa*, the second study in a series of independent reports.

Africa has great economic potential; and this potential is starting to be realised. Over the past 10 years Africa's economic growth has averaged 5 to 7 per cent per year, consistently above the world average. And some of the world's fastest-growing countries are in Sub-Saharan Africa.

In some cases, brisk growth has been based on an abundance of natural resources. In others, it has been achieved notwithstanding a comparatively low natural-resource endowment.

Importantly, this growth is in many economies underpinned by a number of factors that are likely to endure. The working-age population is growing, investment is strengthening, know-how is spreading, urbanisation is rising, financial sectors are starting to deepen, and macroeconomic and structural policy implementation and institutional capacity are improving.

At the same time, Africa's economies, like all economies that are undergoing rapid structural change, face a number of major challenges, not least as regards infrastructure, and these too are considered in this study.

The report's analysis thus helps not only to explain what is going on, but in so doing lays the basis for an appreciation of how businesses such as Puma Energy are well positioned to thrive in the years ahead.

Puma Energy is an independent with a unique business model – we have a special relationship with our key shareholders which we operate under the umbrella of a growing and powerful trading house. This gives us an expanding global reach, significant pricing power, and security of supply. Yet we are independent. So while we enjoy many of the benefits of a larger enterprise, we are able to operate with the nimbleness and flexibility for which independents are prized: this enables us to act quickly to take advantage of new opportunities; and we are more capable of adapting to changing market conditions than are larger conglomerates.

Puma Energy is well positioned in Africa – we have invested heavily, ahead of the competition, in mid- and down-stream assets in a number of fast-growing frontier markets. Our investment in these areas is critical, because we believe that there are not enough of the right infrastructure assets in key locations where oil demand is growing. We have worked hard to ensure access to an expansive global supply network, and we have built up a well-positioned and efficient distribution network: both elements enable us to deliver high quality fuel safely, quickly, reliably, and at a fair price

We are executing a well-thought-out strategy. We are gaining a growing share of the mid- and down-stream market in our target regions, and now employ over 6,000 people, with a strong commitment to employing local people and local resources. We enjoy solving complex problems for our customers in a variety of regulated and unregulated market conditions.

We hope that you will find this report instructive, and that you will also come to appreciate the significant opportunity that lies ahead for a unique independent firm such as Puma Energy.

AUTHORS' NOTE

Africa is a huge, populous, and diverse region, culturally, geographically, politically, and economically. In many respects it is virtually impossible to speak of it meaningfully as an entity. Yet at the same time many of the countries in Africa are subject to a number of similar forces, and face various similar challenges. And certainly all are seeking to develop, so as to improve the lot of their people.

As African countries open further to the international world, whether through inward investment, trade agreements, improved education, or better and cheaper communication and travel, the outlook for many African countries is potentially bright.

To realise their potential, almost all African countries, regardless of their geographic location or their stage of development, need to undergo continual processes of transformation. Not least, they need to see major development of their infrastructures. In this their trading partners, which can bring not only resources but also organisational and other technical expertise, can often play a particularly useful role.

To bring out a number of the main issues clearly, it is necessary to "fly over the subject at the right height." This we hope we have done even if, in so doing, we have had to truncate the paper in various areas, each of which could have been a subject of study on its own.

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KEY MESSAGES

1. Africa is transforming: it is no longer the 'lost continent'.
2. Africa is the second-fastest growing economic region in the world, with a rapidly-growing population.
3. However, it still faces significant challenges of transformation, including importantly of its infrastructure.
4. The continent's growth is creating massive opportunities for further development.
5. Companies that join in early stand to become the giants of the future.

PUMA ENERGY'S PRESENCE IN AFRICA

CHAPTER ONE
AFRICA IN INTERNATIONAL PERSPECTIVE

Africa's economic growth has been strong over recent decades. Africa is the world's second-fastest-growing region, with a growth pattern somewhat akin to that of fast-growing Asia. Importantly, this growth may prove sustainable.

- Africa is the world's second-largest continent, and the second-most-populous
- It has 20% of the world's land, 15% of its people, yet produces only 4% of the world's GDP
- The continent is resource-rich, and almost certainly better endowed than current estimates suggest
- The population is young and growing rapidly: Africans will be a quarter of the world's population by 2050
- Africa's middle class has nearly tripled in 30 years, and the consumer market is growing strongly
- Regional and country performance is diverse, however; and there are still many challenges

AFRICA'S KEY CHARACTERISTICS

Africa has 15% of the world's population, and 20% of its land

Africa is the world's second-largest and second-most-populous continent, after Asia.[1] It has 20% of the world's land,[2] and 15% of its population. Thousands of different languages[3] are spoken across its 55 countries, the largest of which, by area, is Algeria, and by population, Nigeria.

Yet Africa produces just 4% of world GDP

Notwithstanding Africa's geographical importance, the continent currently produces only 4% of world GDP.[4] Asia-Pacific accounts for 38%; Europe for 24%; North America for 22%; and the rest of the world for 12%.

The continent is resource-rich. While the value of Africa's non-renewable, sub-soil resources has been estimated at around $23,000 per square kilometre (2000), this is a little less than one-fifth of that of OECD countries.[5] Such an asymmetric global distribution of resources seems unlikely: the differences could well be better explained by the differing levels of investment in geological surveys, and exploration.

Exploration activity in OECD countries has historically been high: public geological surveys are well funded (e.g. the US Geological Survey), and information on resources is abundant. In Africa, by contrast, exploration has been limited, and public and private exploration have lacked investment. There is likely (significant) resource wealth yet to be discovered, and tapped.

It almost certainly has more resources than estimated

In addition to its sub-soil resources, Africa has abundant fresh water, including lakes, rivers, watersheds, and aquifers. This water is very unevenly distributed, however.

Africa has over 45,000 km. of coastline,[6] and over 8 million sq. km. of arable land, nearly two million of which is under cultivation.[7]

Africa has major regional divides

Africa has major regional divides. The two principal regions are North Africa and Sub-Saharan Africa (SSA):

- **North Africa** is generally taken to include six countries: Egypt; Libya; Tunisia; Algeria; Morocco; and Mauritania
  - This region produces around one-third of Africa's GDP;[8] and it is the most prosperous region. It has comparatively close economic ties with both the Arab world and Western Europe.
- **Sub-Saharan Africa** is generally taken to include 49 countries, the largest five of which, in terms of GDP,[9] are: South Africa; Nigeria; Angola; Ethiopia; and Ghana[10]
  - The region produces around two-thirds of Africa's GDP.[11] Development levels differ significantly between countries. GDP per capita in South Africa, for example, is just over $6,000; in Mozambique, by contrast, it is just over $400.[12]

There are various trading and customs unions

Notwithstanding regional divides, there are a number of trading and customs unions across the continent, including:

- East African Community;
- Economic Community of Central Africa;
- Economic Community of Western Africa;
- Western African Economic and Monetary Union;
- Southern African Customs Union; and
- Southern African Development Community.

BOX:
AFRICA'S DEMOGRAPHIC DIVIDEND

Africa's population reached 1bn in 2010, and is set to grow rapidly over the coming decades. The population is young. Africa's dependency ratio is low, and stands to remain so.

Africa is the world's second-most-populous region.
Africa and Asia are the only regions where populations are expected to grow (Figure A).

By 2030, Africa's population is expected to have risen from its present 1.0bn to 1.6bn; and Asia's from 4.2bn to 4.9bn.

By 2050, Africa's population is likely to have grown to around 2.4bn, and to account for around one quarter of the world total. In Europe, Latin America, and Northern America, by contrast, population size is expected to remain relatively stable over the coming decades.

Africa has a young population: half is under 20 years old.
Birth rates are high, infant mortality is falling, and life expectancy is rising:

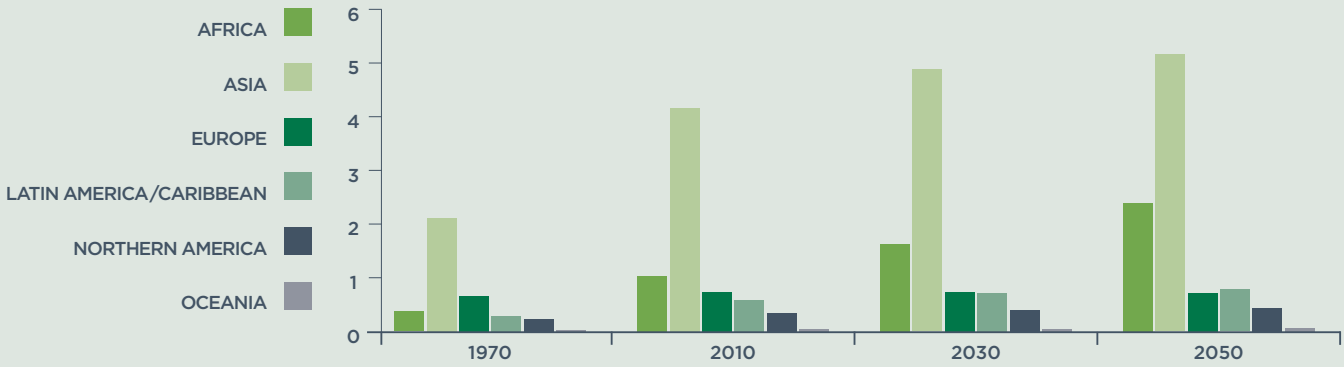
— *Birth rates* were over 40% higher in the period 2005-2010 than in 1985-1990; the number of births rose to 178m from 126m.
— *Infant mortality* is high by international standards, but has fallen to 73 per 1,000 (2005-2010) from 104 (1985-1990).
— *Life expectancy* is low, but is increasing. It has risen to 56 years in the period 2005-2010, from 52 years (1985-1990).

Africa's dependency ratio is low, and is set to remain so.
In 2010 a mere 5% of Africa's population was aged over 60 (Figure B). Europe, by contrast, had the highest proportion of over-60s, at 22%, followed closely by Northern America with 19%.

— By 2030, Africa's over-60s population is likely to have risen only slightly, to perhaps 6% of its population. Europe's figure, on the other hand, is expected to have reached nearly 30%.

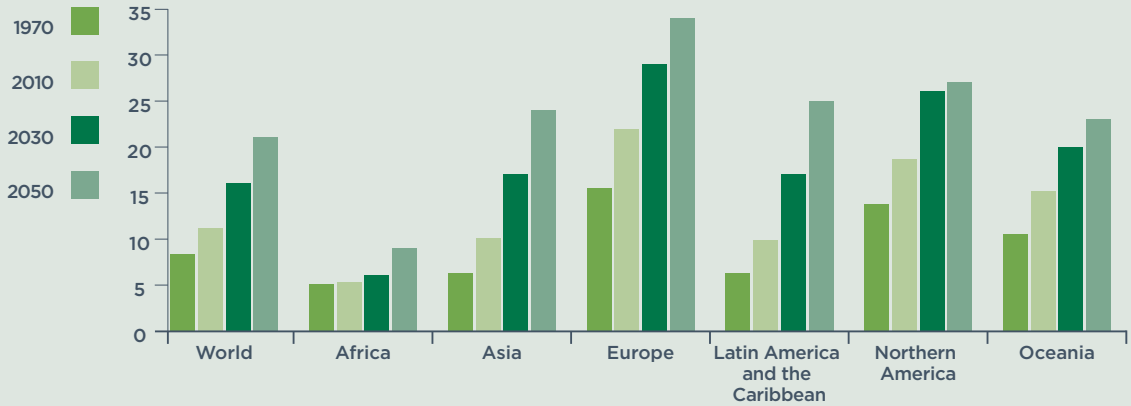
By 2050 all regions outside Africa are likely to have 20% or more of their populations aged 60 or more, whereas Africa's proportion is expected to be only 9%.

FIGURE A: TOTAL POPULATION BY REGION (BILLION)



Source: UN World Population Prospects: 2012 Revision (2013)
Notes: Medium fertility projections.

FIGURE B: POPULATION AGED 60 OR ABOVE, BY REGION



Source: UN World Population Prospects: 2012 Revision (2013)
Notes: Medium fertility projections.

AFRICA'S ECONOMIC PERFORMANCE

Africa's economic data are sparse and often inaccurate

In Africa, data even as basic as (the level of) GDP are subject to considerable uncertainty, often due to important areas of economic activity not being captured. For example, in Ghana in 2010 the statistics authority revised that country's GDP estimate up by over 60% after concluding that previous estimates had failed to capture $13bn worth of informal economic activity.[13] There is no reason to suppose that potential revisions of such size should apply only to Ghana.

There are particular problems with GDP estimates

Moreover, revisions to GDP are infrequent. A recent survey found that, of all Sub-Saharan countries, only 10 had a base year less than a decade old.[14] Ghana, for example, used a base year of 1993 until 2010, when it rebased and revised its GDP estimates. Nigeria continues to use a base year of 1990; and an update is not expected until 2014.[15]

Taken together, this information has led Morten Jerven to conclude:

> *"...the available figures ...suggest ...*[that] *many economies in Africa today may be richer than we think. Some of them, like Nigeria, probably are. That's the good news. The bad news is that we don't really know for sure."* [16]

All that said, levels data being wrong need not necessarily translate into seriously inaccurate growth rates. Growth rate calculations may be broadly correct if the unmeasured activities have grown at much the same rate as the measured part of the economy. There is, however, no guarantee that this is the case.

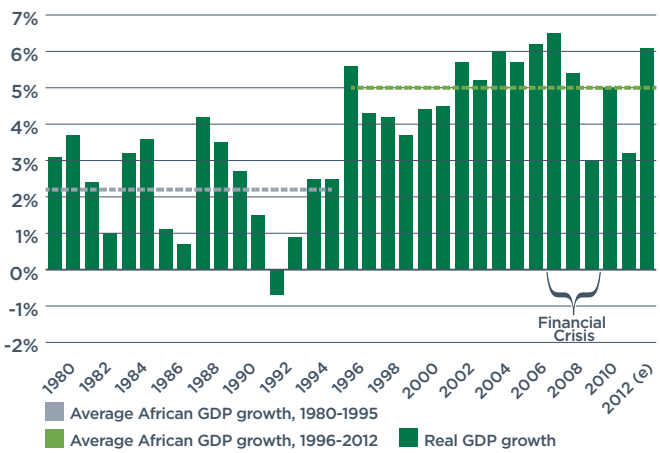
Africa's GDP growth accelerated in the mid-1990s...

Africa's real GDP growth, as measured, accelerated in the mid-1990s, averaging 5% annually from 1996 to 2012, up from 2.2% in the period 1980 to 1995 (Figure 1). Since 2000[17] Africa's real GDP growth has been strong, averaging 5% per year, far outpacing the 2%-odd of the advanced economies,[18] to become the world's second-fastest-growing region. Furthermore, real GDP growth proved reasonably resilient during the global financial crisis, at over 5% in 2008 and 3% in 2009: this contrasts sharply with advanced-economy performance of zero growth in 2008 and a decline of 3.5% in 2009.

...outpacing the advanced economies since 2000, North Africa has generally under-performed

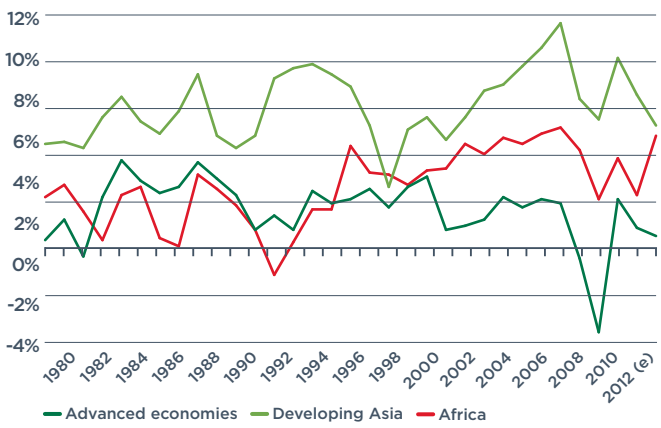
Africa's growth pattern is now more akin to that of fast-growing Asia, which averaged 8% over the period 2000 to 2012. (Figure 2).

FIGURE 1. AFRICA'S GROWTH OF (REAL) GDP, 1980-2012



Source: IMF World Economic Outlook (2013)
Notes: The source uses an absolute definition of per capita daily consumption of $2 to $20 in 2005 PPP US Dollars to characterise the middle class in Africa.

FIGURE 2. REAL GDP GROWTH BY SELECTED REGION, 1980-2012



Source: IMF World Economic Outlook (2013)
Notes: 38 out of 55 African countries are scored.
The Sub-Sahara region includes 34 countries, and the North Africa region four.

North Africa, which grew on average at 4.6% per year from 2000 to 2012, under-performed Sub-Saharan Africa, which averaged 5.4% (Figure 3). The North African economies, being more connected to the economies of Europe, were affected strongly by the 2008 Western economic crisis, as well as by the 'Arab Spring' political revolutions. In 2011 North Africa's GDP growth stagnated, due in large part to the events in Libya. There was a significant rebound in 2012, however, with growth accelerating to 9.3%.

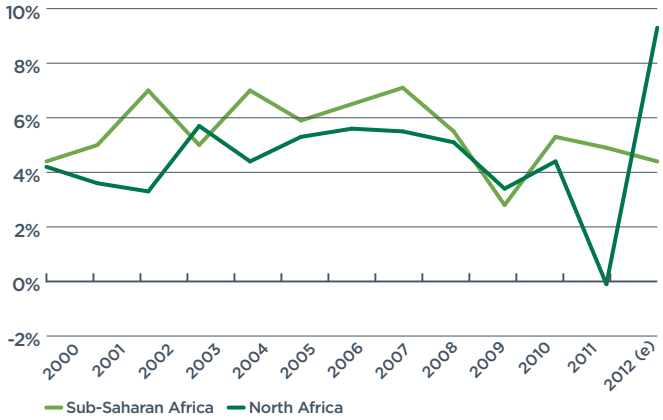
Performance across countries has been diverse

Regional averages disguise a considerable diversity, however. Some countries have grown fast, others have grown slowly at best: and for most, growth has been somewhat volatile (Figure 4).

Some of Africa's top-performing economies averaged double-digit annual GDP growth between 2000 and 2012. Angola, one of Africa's fastest growing economies, recorded average annual growth of around 10%. Nigeria and Rwanda also grew rapidly, at around 8%.

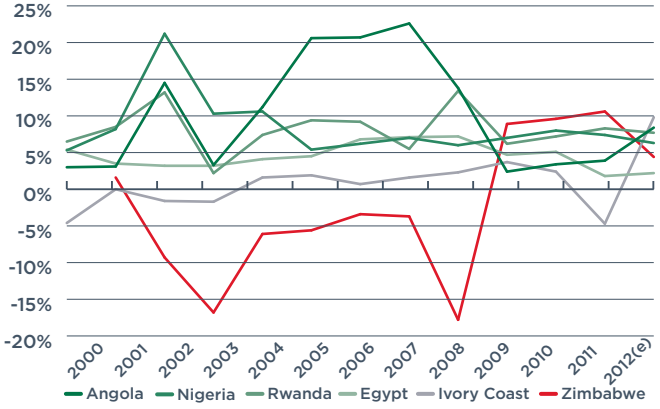
Other economies, however, experienced low growth, and in some GDP even declined. The Ivory Coast averaged only 1%; and Zimbabwe's economy contracted by an average 2% per year. North African countries recorded moderate growth: Egypt for example averaged 5% before its recent slowdown.

FIGURE 3. NORTH AFRICA AND SUB-SAHARAN AFRICA'S REAL GDP GROWTH, 2000-2012



Source: IMF World Economic Outlook (2013)

FIGURE 4. REAL GDP GROWTH, SELECTED AFRICAN COUNTRIES, 2000-2012



Source: IMF World Economic Outlook (2013)

BOX:
AFRICA'S GROWING CONSUMER CLASS

Africa's middle class has grown importantly in recent decades. By some estimates a third of the population is now middle class, and the consumer market is growing strongly.

Over the past 30 years Africa's middle class has nearly tripled.
The middle class has surged, on some estimates from 115 million in 1980 to 327 million in 2010 (Figure A). Notwithstanding this rapid growth, the proportion of middle-class Africans (those earning $2 to $20 per day) remained relatively stable between 1980 and 2000, at around 27% of the total population. Over the past decade, however, the proportion has grown significantly, reaching 34% in 2010.

Africa's rich and upper-middle class each make up around 5% of Africa's population.
Notwithstanding the recent rapid growth in Africa's middle class, the upper-middle class (those earning $10 to $20 per day) has remained relatively stable since the 1980s, at around 5% of the population (2010). This equates to around 50 million people.

The rich class (those earning more than $20 per day) has fluctuated in the 4% to 6% range over a comparable period. About 5% of the population is now considered to be in this class (2010).

Upper-middle and rich classes together total around 100 million, some 10% of the total population.
This number gives a reasonable indication of the size of the consumer market and hence, for example, of the potential purchasing power for white, electronic, and other goods. An income of $10 per day or more, it is generally reckoned, presents an opportunity to buy, or save up for, a mobile phone, refrigerator, computer, or even a car.

Source: AfDB The Middle of the Pyramid: Dynamics of the Middle Class in Africa (2011)

Mobile phone penetration in Sub-Saharan Africa is rising fast.
Over the past six years, mobile phone subscriptions have increased six-fold in Sub-Saharan Africa (SSA), from only 10 per 100 head of population six years ago to just under 70 today (Figure B).

Many countries have skipped landlines, with their heavy associated infrastructure, moving directly to 3G or 4G mobile phone networks. Penetration levels are likely to catch up with the OECD average by 2020, where they have been broadly flat since 2010.

Vehicle take-up is also on the increase.
Motor vehicle take-up per head of population is on a rising trend in Africa. Penetration has been particularly strong in a number of countries. Data are, however, sparse.

In Botswana, from 2003 to 2009, motor vehicle ownership (cars, buses, and freight) increased by nearly 40% (from 96 to 133 per 1,000 head of population); in Ghana by just over 40% (from 21 to 30 per 1,000); and in South Africa by over 20% over a similar period (from 135 in 2004 to 165 in 2010).[1]

Access to transport, both for industrial and public use, is vital for economic development; and access to vehicles, including passenger cars and freight, is of even greater importance when other logistical infrastructures, such as rail networks, are less developed.

[1] Source: The World Bank (2013)

Optimism is rising that strong growth will be sustained

Throughout the 1990s, economic conditions in Africa were generally poor. Debt, disease, environmental disasters, and violent conflicts dominated headlines. *The Economist* magazine labelled Africa "the hopeless continent", and it was 'written off' by most investors in favour of developing Asia.

Africa's progress since 2000 however, has been driven not just by commodities, and there is optimism that growth performance will be maintained: various indicators – trade, health, and infrastructure, in particular – are encouraging, and key improvements in the policy environment and business climate are laying foundations for sustainable growth.

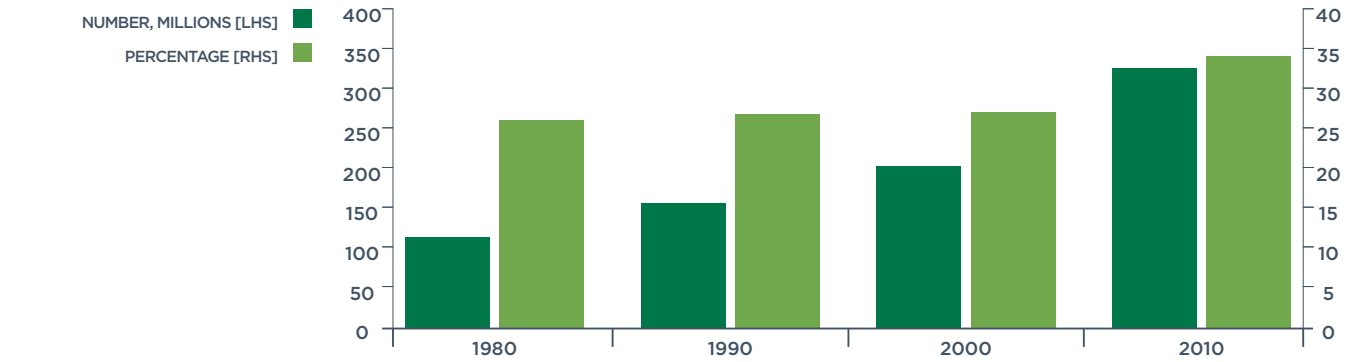
However, questions remain

Questions remain, however. The basic challenge of transforming commodity wealth into physical and human capital that can support sustainable growth and development remains. A second challenge is to maintain fiscal responsibility throughout the volatile commodity cycle.

The sustainability of recent growth rates will be dependent on a number of factors including, but not limited to: countries' access to, and ability to exploit, resource wealth; their capacity to build a manufacturing base; the ability to deliver service-related activities; and the willingness to strengthen trade links both within Africa and with other regions such as Europe and Asia.

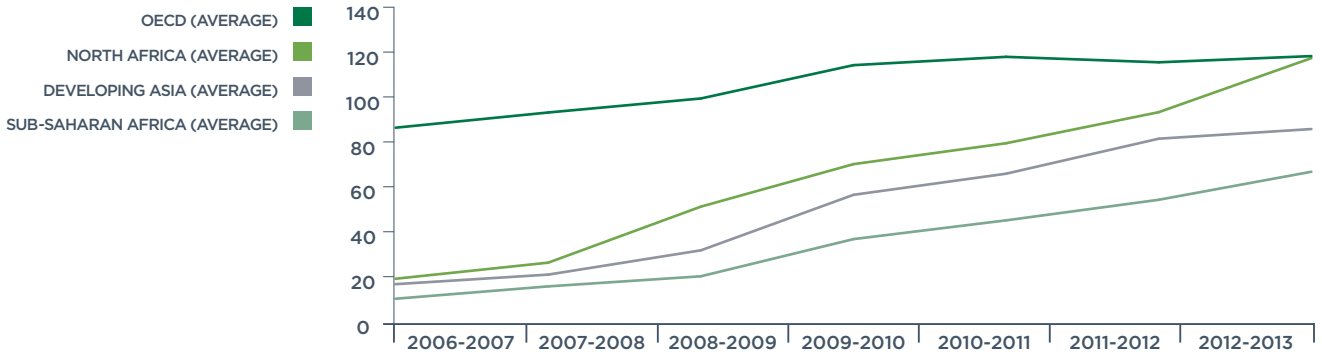
The following chapter explores the extent to which resources have driven Africa's recent economic growth performance.

FIGURE A: ESTIMATES OF AFRICA'S MIDDLE-CLASS POPULATION



Source: African Development Bank (2011)
Notes: The source uses an absolute definition of per capita daily consumption of $2 to $20 in 2005 PPP US Dollars to characterise the middle class in Africa.

FIGURE B: MOBILE TELEPHONE SUBSCRIPTIONS PER 100 HEAD OF POPULATION



Source: WEF, Global Competitiveness Index data analyser (2013)
Notes: 38 out of 55 African countries are scored. The Sub-Sahara region includes 34 countries, and the North Africa region four.

CHAPTER TWO
RESOURCES AND ECONOMIC GROWTH

Africa's primary commodity export volumes have more than doubled since 2000. High commodity prices have boosted export revenues further. Foreign Direct Investment (FDI) inflows have also accelerated significantly.

- Africa has a significant and growing share of global production in a number of commodities
- Africa's share of global oil and gas production, however, is small
- FDI inflows have tripled as a proportion of GDP, now matching those into Asia and the EU
- FDI stocks have also grown strongly, bringing Africa in line with the global average
- Around 70% of the FDI is concentrated in the resource-rich economies
- FDI projects today span a range of sectors. Since 2003 most have been in financial and businesses services.

COMMODITIES

Commodity price increases have helped Africa

Commodity price increases have helped Africa's growth performance. From the early 2000s commodity prices have trended upwards – not only absolutely but, more importantly, relative to the prices of the exports of OECD economies. (Figure 5).

While the global financial crisis of 2008-09 led to a significant fall in energy and non-energy prices, the prices of precious metals continued to rise sharply. Once the global economy recovered, both energy and non-energy prices rebounded relatively quickly.

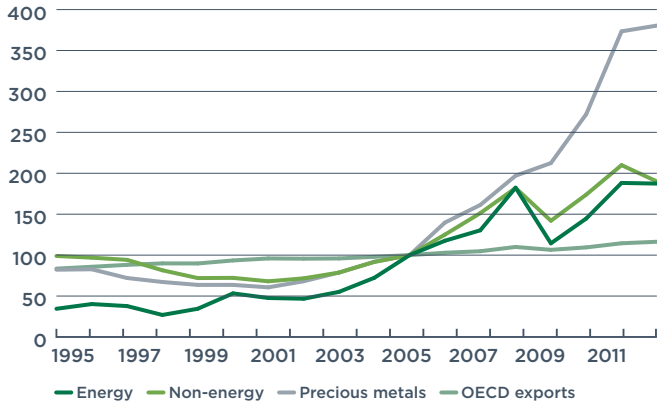
With many countries being primary-commodity exporters, these higher commodity prices have boosted Africa's export revenues. With OECD export prices, by contrast, broadly flat over the same period, Africa's international terms of trade – the volume of exports required to pay for a given volume of (largely manufactured) imports – improved considerably from Africa's perspective.

Export volumes have more than doubled since 2000

At the same time that commodity prices, and thereby Africa's international terms of trade, increased, export volumes also rose. From 1995 to 2000, African primary commodity exports in real (price adjusted) terms averaged around $80 billion per year. In the following decade (2001 to 2011) export volumes doubled, averaging over $170 billion, peaking in 2008 at just over $240 billion (Figure 6). The subsequent fall in 2009 reflected the global financial crisis: export volumes picked up again once the global economy started to recover.

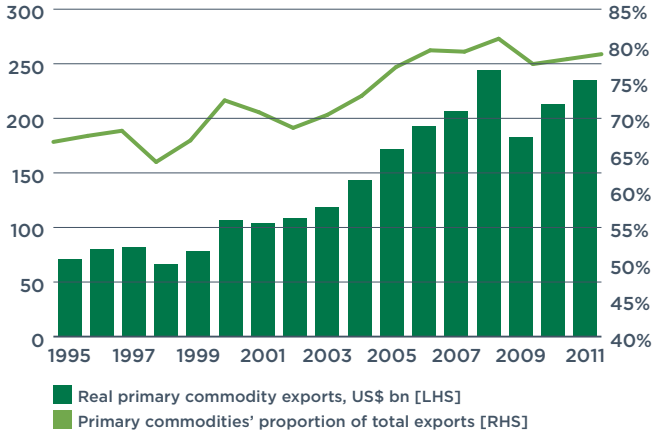
Africa has a significant and growing share of global production in a number of commodities. The continent's share of global production in platinum-group metals (PGMs), cobalt, and diamonds, for example, has increased significantly over the past decade, now standing at over 50% (Figure 7). For chromite and manganese the share is at least 30%.

FIGURE 5. COMMODITY PRICE INDICES AND OECD EXPORT PRICE INDEX, 1995-2012



Source: The World Bank Commodity Data (Pink Sheet). Annual nominal commodity price indices in nominal US dollar terms, 2005=100. OECD Economic Outlook, 2012. Issue 2 - No.92 OECD export index is an OECD aggregate in nominal national currency terms.

FIGURE 6. AFRICA'S REAL PRIMARY COMMODITY EXPORTS, 1995-2011



Source: UNCTAD, UNCTADstat. (2013)
*Notes: Nominal figures deflated using an African GDP deflator index (2000=100; US $ series) from the World Bank Development Indicators Database, 2012. See**in Endnotes.*

FIGURE 7. AFRICA'S NATURAL-RESOURCE PRODUCTION, 2000 AND 2010

	2000			2010			
	AFRICA'S SHARE OF GLOBAL PRODUCTION %	VALUE OF AFRICA'S PRODUCTION (2010 USD MILLION)	NUMBER OF COUNTRIES 2000	AFRICA'S SHARE OF GLOBAL PRODUCTION %	VALUE OF AFRICA'S PRODUCTION (2010 USD MILLION)	NUMBER OF COUNTRIES 2010	REAL OUTPUT GROWTH 2000-2010 IN %
PGMs	55	10,588	2	74	14,191	4	34
COBALT	43	490	6	62	1,775	8	262
DIAMONDS	45	4,265	16	54	4,967	17	16
CHROMITE	51	1,578	4	42	2,442	4	55
MANGANESE	32	493	4	30	3,131	8	535
PHOSPHATES	28	4,607	10	26	5,662	10	23
GOLD	24	25,568	36	19	19,947	39	-22
MINING TOTAL	**14**	**59,592**	**44**	**12**	**73,286**	**44**	**23**
OIL	10	216,001	18	11	284,875	19	32
GAS	5	39,036	14	7	68,423	18	75
COAL	6	21,266	15	4	23,759	13	12
ENERGY TOTAL	**10**	**276,303**	**N/A**	**11**	**377,056**	**N/A**	**36**
AGRICULTURE TOTAL	**8**	**200,675**	**54**	**9**	**266,605**	**54**	**33**

Data source: OECD African Economic Outlook (2013) Notes: 'Mining total' contains additional mining products to those listed in the table.

Africa's shares of global oil and gas production, however, are both small: 11% and 7% respectively. Notwithstanding its vast land mass, Africa's share of global food and agriculture production is similarly small, at around 10% (2010).

FOREIGN DIRECT INVESTMENT

FDI inflows to Africa have accelerated since 2000

Foreign direct investment (FDI)[19] inflows to Africa have accelerated, particularly since 2000. As a proportion of GDP, inflows have tripled, from an average of just under 1% per year between 1970 and 2000 to 3% from 2001 to 2012 (Figure 8). FDI to both developing Asia and the EU grew similarly over a comparable period. FDI to the US, by contrast, grew less fast, from just under 1% to 1.3%.

The stock of African FDI has grown strongly

The accumulated value (stock) of global FDI has grown worldwide over the past 30 years or so as a proportion of GDP, in part reflecting increased globalisation (Figure 9).

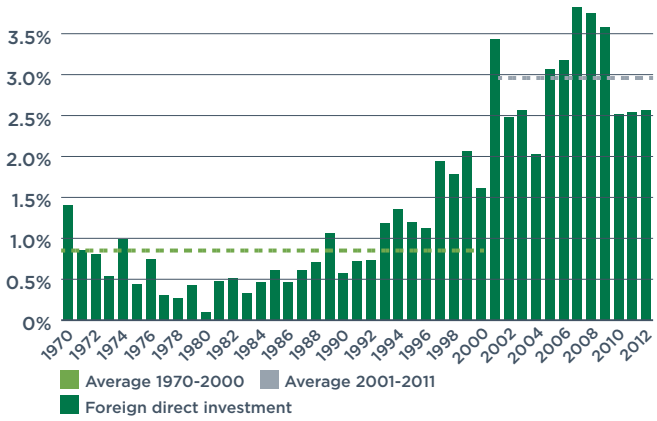
Africa has fared particularly strongly: FDI stocks as a proportion of GDP tripled between 1980 and 2011. Africa surpassed developing Asia in the early 2000s, and is now broadly in line with the global average.

Most FDI has been funded by developed economies

Over the past decade (2003 to 2012) most new FDI projects have been funded by developed economies. The US, the UK, and France each contributed two to three times the number of most other countries listed in the top ten (Figure 10).

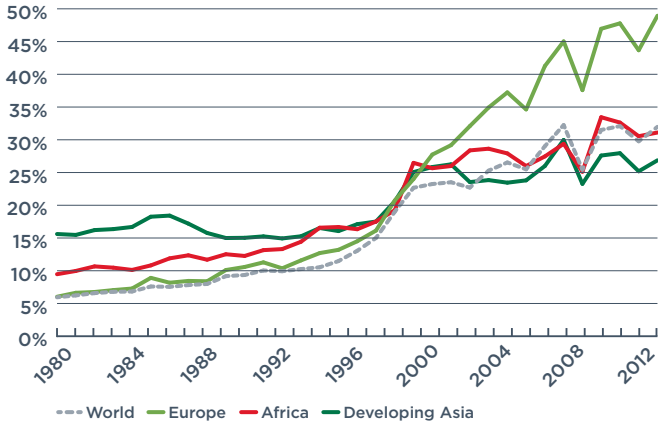
That said, developing economies too have invested in a significant number of projects. Those listed in the top ten include: India; South Africa; the UAE; and China (Figure 10). Interestingly, India was the top developing economy investor in new FDI projects, and South Africa was the only country from Africa to feature. While China does make the top ten, and attracts a large amount of press comment internationally, it invested in fewer than 200 new projects.

FIGURE 8. FOREIGN DIRECT INVESTMENT IN AFRICA, NET INFLOWS, 1970-2012 (% OF GDP)



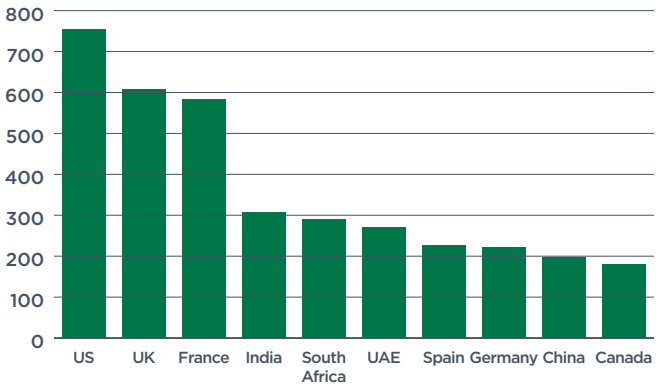
Source: UNCTAD, UNCTADstat (2013)
Notes: 'Mining total' contains additional mining products to those listed in the table.

FIGURE 9. FDI STOCKS AS A PROPORTION OF GDP, WORLD AND SELECTED REGIONS, 1980-2012



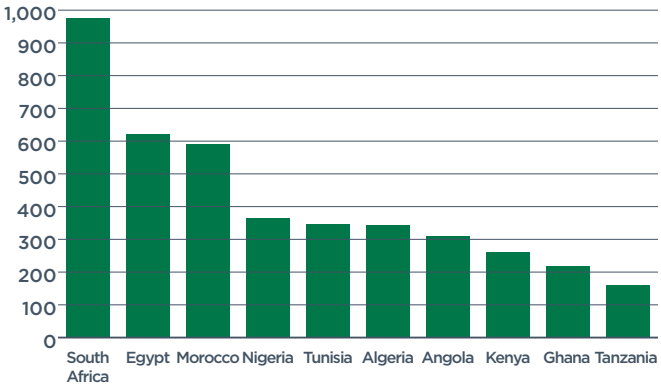
Source: UNCTAD, UNCTADstat. (2013)

FIGURE 10. TOP TEN SOURCE COUNTRIES FOR NEW FDI PROJECTS IN AFRICA, 2003-2012 (NUMBER OF PROJECTS).



Source: fDi Markets; and Ernst & Young, Africa Attractiveness Survey (2013)
Notes: fDi Markets classifies FDI projects as: cross-border investment in a new project or expansion of an existing investment which creates new jobs and capital investment.
N.B.: This includes cross-border investment on the same continent.

FIGURE 11. TOP TEN AFRICAN DESTINATIONS FOR NEW FDI PROJECTS, 2003-2012 (NUMBER OF PROJECTS)



Source: fDi Markets; and Ernst & Young, Africa Attractiveness Survey (2013)

A few countries were the main destinations for new projects

A small number of countries were the principal destinations for most new FDI projects. South Africa, Sub-Saharan Africa's most developed economy, was by far the leading destination, attracting 977 new investment projects (Figure 11). Egypt, Morocco, and Tunisia were among North Africa's top destinations, attracting 622, 590, and 348 projects respectively. Nigeria, Algeria, and Angola – major oil producers – also attracted a significant number.

FDI is concentrated in resource-rich economies...

About 70% of Africa's FDI remains concentrated in the resource-rich countries.[20] FDI is relatively more volatile in resource-rich countries, in part reflecting global commodity price cycles. FDI has been on an upward trend, increasing from $7bn in 2000 to $35bn in 2012. As a share of GDP, however, this is still only just over 2% (2012).

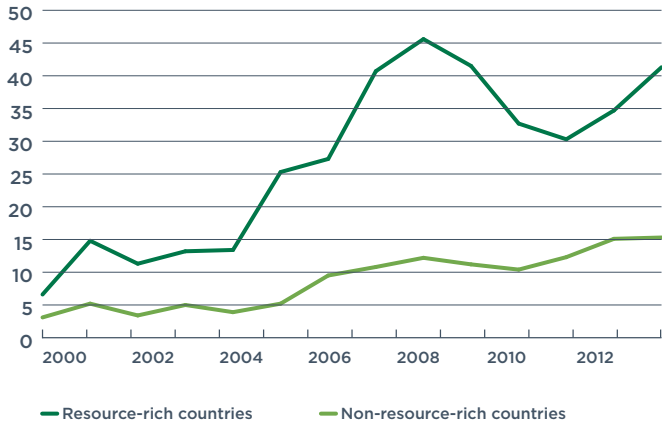
...but as a share of GDP it is higher in the non-resource-rich

In the non-resource-rich countries[21] too, FDI has risen rapidly – fivefold, from $3bn to $15bn, over the same period. FDI as a proportion of GDP was higher than in resource-rich economies, at 3.7% of GDP (2012). (Figures 12a and 12b).

FDI projects now span a range of sectors

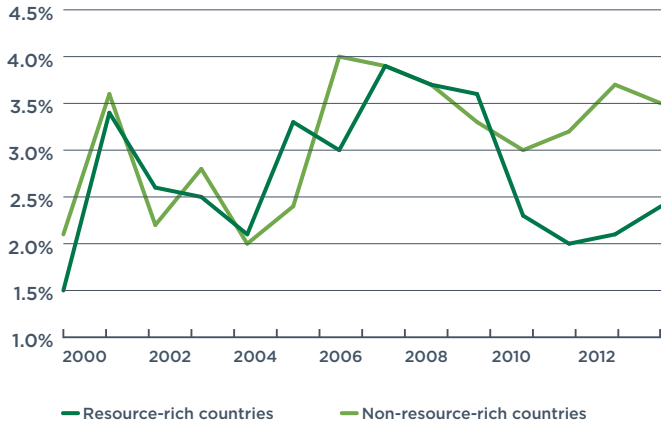
Historically, it has been the resource extraction activities in Africa that have attracted the most interest from foreign investors.[22] However, projects have diversified well beyond resource extraction. Most new projects since 2003, for example, have been in the financial and business services sectors, attracting 958 and 469 projects respectively (Figure 13). FDI projects are also increasingly technology-focused. Communications, and software & IT services, attracted 407 and 356 projects respectively over a comparable period.

FIGURE 12A. FDI TO RESOURCE-RICH VERSUS NON-RESOURCE-RICH COUNTRIES, 2000-2013 (CURRENT US$ BN)



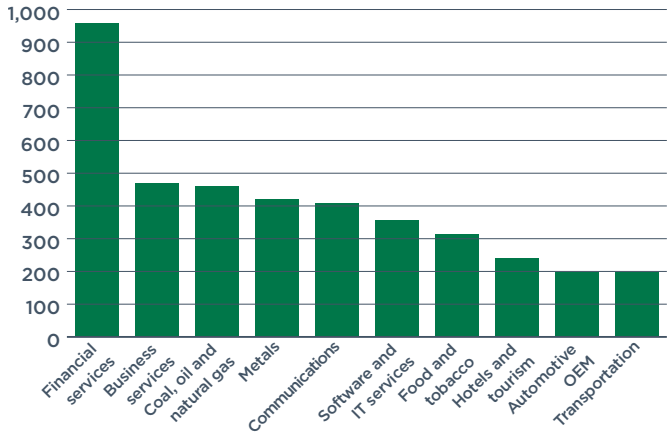
Source: OECD African Economic Outlook (2013)
Notes: 2012 is an estimate and 2013 a projection.

FIGURE 12B. FDI TO RESOURCE-RICH VERSUS NON-RESOURCE-RICH COUNTRIES, 2000-2013 (% OF GDP)



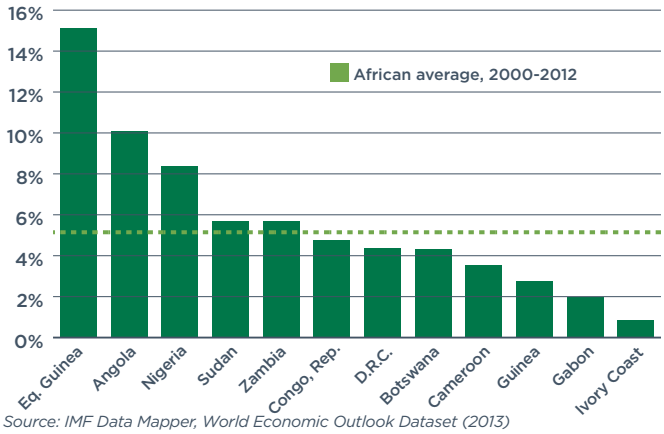
Source: OECD African Economic Outlook (2013)
Notes: 2012 is an estimate and 2013 a projection.

FIGURE 13. TOP TEN SECTOR DESTINATIONS FOR NEW FDI PROJECTS IN AFRICA, 2003-2012 (NUMBER OF PROJECTS)



Source: fDi Markets; and Ernst & Young, Africa Attractiveness Survey (2013)

FIGURE 14. REAL GDP GROWTH, SELECTED RESOURCE-RICH AFRICAN COUNTRIES, AVERAGE, 2000-2012



Source: IMF Data Mapper, World Economic Outlook Dataset (2013)
Notes: 'Resource-rich' countries selected from OECD (2013), IMF (2012) and World Bank (2012) reports as those explicitly defined as such in all of the three sources.

RESOURCES ARE NOT EVERYTHING

A rich resource endowment, while affording potential, does not guarantee strong economic growth.

Some resource-rich countries have grown rapidly...

Some resource-rich countries[23] have grown strongly: Equatorial Guinea and Angola, for example, both averaged double-digit growth between 2000 and 2012, while Nigeria averaged over 8% (Figure 14).

...others have grown more slowly

At the same time, however, a number of resource-rich countries have grown much less rapidly – and below Africa's average of 5.1%. The Democratic Republic of Congo, Cameroon, and Botswana, for example, all averaged only around 4%, and the Ivory Coast grew slower still, at less than 1% (Figure 14). In most of these countries the major resource contributing to growth has been oil. Others include diamonds, copper, and other minerals.

Some resource-poor countries have grown rapidly...

Interestingly and importantly, rapid growth has been achieved by a number of countries that do not have significant natural resources. Resource-poor Rwanda and Ethiopia, for example, grew strongly, at an average 8% per year between 2000 and 2012 (Figure 15). Cape Verde also recorded strong growth, averaging around 6%. And some other resource-poor countries, such as Mauritius, Malawi, and Kenya recorded average growth rates not far below the African average.

...while others have grown slowly, if at all

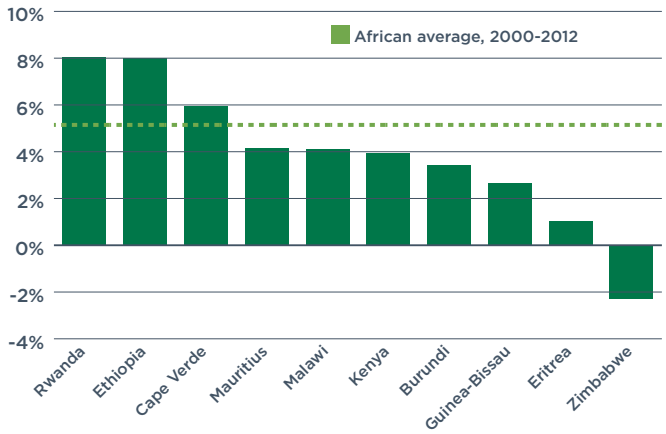
Other resource-poor economies have however performed poorly. Eritrea averaged only 1% per year, while Zimbabwe's economy contracted by an estimated 2% annually (Figure 11). The primary economic activities in these resource-poor economies include agriculture; manufacturing; communications; and services.

Growth is by no means resource-dependent

Thus the relationship between resources and growth is not as strong as perhaps might be expected; and, in particular, economic growth is by no means always resource-dependent (Figure 16). Countries with equally-strong growth can have very different resource endowments. Nigeria and Ethiopia both grew at around 8% over the period, well above Africa's average. Yet, Nigeria is a major oil producer whereas Ethiopia is resource-poor, its primary activities being agriculture and services.

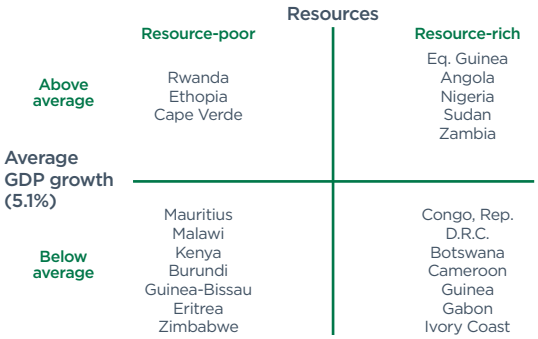
Accordingly, other factors, in addition to resource endowment, have to be appealed to if differentials in growth performance across economies are to be accounted for. One potentially important determinant is likely to be the quality of a country's institutions, and that is the subject of the following chapter.

FIGURE 15. REAL GDP GROWTH, SELECTED RESOURCE-POOR AFRICAN COUNTRIES, AVERAGE, 2000-2012



Source: IMF Data Mapper, World Economic Outlook Dataset (2013)
Notes: 'Resource-poor' countries have been taken to be those both listed as non-resource-rich by the IMF (2012), and also not listed by the OECD (2013) and World Bank (2012) as resource-rich.

FIGURE 16. RELATIVE GDP GROWTH OF SELECTED RESOURCE-RICH AND RESOURCE-POOR AFRICAN COUNTRIES, 2000-2012



Source: IMF Data Mapper, World Economic Outlook Dataset (2013)
Notes: Countries listed top to bottom in order of growth rate. 'Resource-rich' countries selected from OECD (2013), IMF (2012) and World Bank (2012) reports as those explicitly defined as such in all of the three sources. 'Resource-poor' countries have been taken to be those both listed as non-resource-rich by the IMF (2012), and also not listed by the OECD (2013) and World Bank (2012) as resource-rich.

CHAPTER III
THE IMPORTANCE OF INSTITUTIONS

Institutions provide the framework for a functioning competitive economy, and are crucial for economic development.

- The quality of African institutions, broadly defined, can be assessed using indexes of 'competitiveness'
- The Sub-Sahara index has recently edged higher, and is close to OECD levels in a number of areas
- North Africa's 'competitiveness' is higher than the Sub-Sahara's, and the region scores well on a number of fundamentals
- Closing the gap vis-à-vis OECD will require investment, especially in infrastructure and technological readiness

INSTITUTIONS: A DEFINITION

Institutions are crucial to economic development

Quality institutions are crucial to economic performance, growth, and development.

A broad and comprehensive definition of what can usefully be understood by 'institutions' is offered by Douglas North, the 'father' of institutional economics:

> *"Institutions are the rules of the game of a society and in consequence provide the framework of incentives that shape economic, political, and social organization.*
>
> *Institutions are composed of formal rules (laws, constitutions, rules), informal constraints (conventions, codes of conduct, norms of behaviour), and the effectiveness of their enforcement.*
>
> *Enforcement is carried out by third parties (law enforcement, social ostracism), by second parties (retaliation), or by the first party (self-imposed codes of conduct).*
>
> *Institutions affect economic performance by determining, together with technology employed, the transaction and transformation (production) costs that make up the total costs of production.*
>
> *Because there is an intimate connection between the institutions and technology employed, the efficiency of a market is directly shaped by the institutional framework."*[24]

INDICATORS OF COMPETITIVENESS

Assessing the quality of institutions is not straightforward

North's definition thus encompasses not only institutions in a narrow sense, but rather the full framework of policy and societal elements that, collectively, do so much to determine how well an economy and a society perform and evolve.

Assessing the quality of institutions is not straightforward. That said, comprehensive indexes and sub-indexes of 'competitiveness', produced by independent development organisations, can be used to give some guidance about the quality of institutions in the Northian sense.

Indexes of competitiveness can be indicative

The World Economic Forum's (WEF) assessment, *The Global Competitiveness Report,*[25] is perhaps the most authoritative of such exercises. It works with a broad definition of 'competitiveness':

> *"...the set of institutions, policies, and factors that determine the level of productivity of a country."*[26]

This broad definition has spawned an array of 12 primary sub-indexes:

— Institutions in a narrow sense;
— Infrastructure;
— Macroeconomic environment;
— Health and primary education;
— Higher education and training;
— Goods and market efficiency;
— Labour market efficiency;
— Financial market development;
— Technological readiness;
— Market size;
— Business sophistication; and
— R&D innovation.

For most African countries, the first four of these 12 components are accorded a proportionately heavy weighting by the WEF: institutions narrowly defined; infrastructure; macroeconomic environment; and health and primary education.[27]

AFRICA IN INTERNATIONAL COMPARISON

Africa scores below OECD economies, but near many others

Not surprisingly, Africa's global competitiveness scores are below OECD levels. OECD countries score on average a little under 5 out of a possible 7; Sub-Saharan Africa and North Africa score 3.6 and 3.8 respectively (Figure 17).

Africa's scores are, however, not far behind those of other emerging economies: the BRICS score 4.4; Developing Asia 4.2, both also under the OECD average. The Asian Tigers, on the other hand, score highest, at 5.4.

Competiveness in SSA is improving...

In Sub-Saharan Africa, competitiveness has been edging slightly higher, the average rising from 3.5 to 3.6 between 2007 and 2013 (Figure 18).

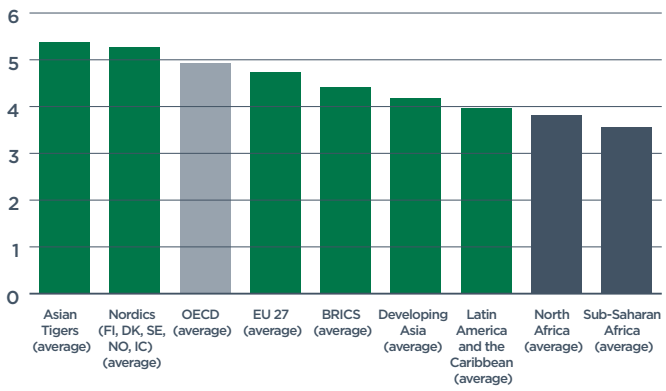
...and SSA scores well on many fundamentals

This overall increase reflects a fairly widespread increase for many of the fundamentals – 8 of the 12 increased between 2007 and 2013 (Figure 19). Technological readiness rose the most, and health and primary education also improved markedly. In a number of areas, scores are now close to those of OECD economies (Figure 20). Labour market and goods market efficiency, in particular, are close. The macroeconomic environment and financial market sophistication also rank well.

North Africa's competitiveness is higher than SSA's...

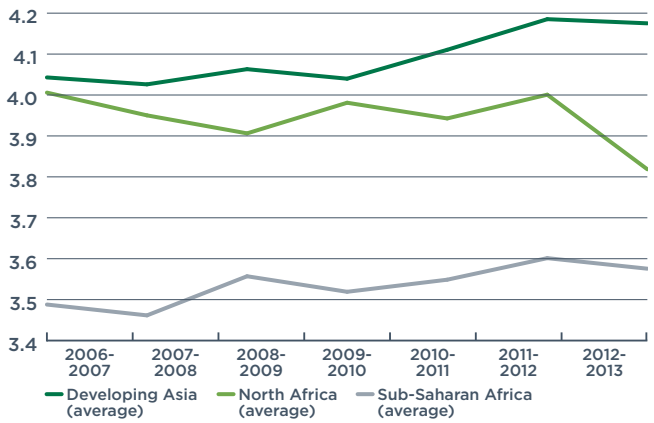
In North Africa, competitiveness overall is higher than in the Sub-Saharan region, but has recently fallen back somewhat (Figure 18). Much of this recent fall, from 4.0 to 3.8, can be attributed to political uncertainty following the 'Arab Spring'.

FIGURE 17. GLOBAL COMPETITIVENESS INDEX, SELECTED REGIONAL AVERAGES, 2012-2013 (MAXIMUM POSSIBLE SCORE = 7)



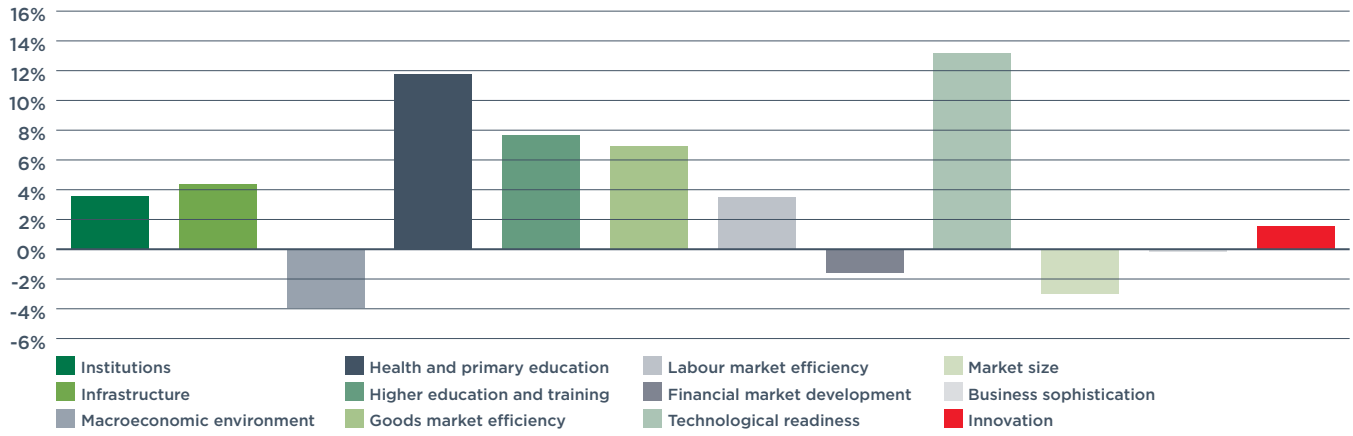
Source: World Economic Forum (2013) Global Competitiveness Index data analyser.
Notes: 38 out of 55 African countries are scored. The Sub-Sahara region includes 34 countries, and the North Africa region four (Morocco, Egypt, Algeria, and Libya).

FIGURE 18. GLOBAL COMPETITIVENESS INDEX, SELECTED REGIONAL AVERAGES, 2007-2013 (MAX. SCORE = 7)



Source: World Economic Forum, Global Competitiveness Index data analyser (2013); and World Economic Forum African Competitiveness Report (2013)
Notes: 38 out of 55 African countries are scored. The Sub-Sahara region includes 34 countries, and the North Africa region four (Morocco, Egypt, Algeria, and Libya).

FIGURE 19. GLOBAL COMPETITIVENESS INDEX, CHANGE BY COMPONENT, SUB-SAHARAN AFRICA, 2007-2013



Source: World Economic Forum, Global Competitiveness Index data analyser (2013)

...but the 'Arab Spring' has had a negative impact

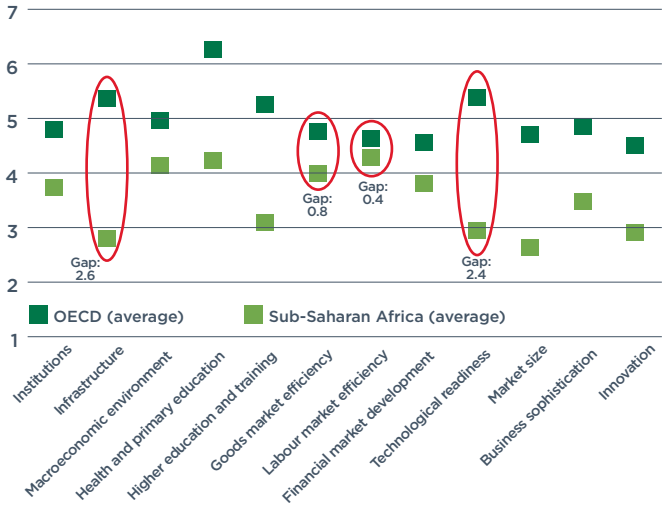
North Africa's scores show an overall increase for only 3 of the 12 components (Figure 22). However, many of these components had until recently been rising: they turned down only following the 'Arab Spring'.

North Africa's scores for macroeconomic environment and market size are still close to the OECD average (Figure 21), although other components are significantly further behind. In particular, the region ranks comparatively low in respect of technological readiness; innovation; and infrastructure.

FURTHER TO GO

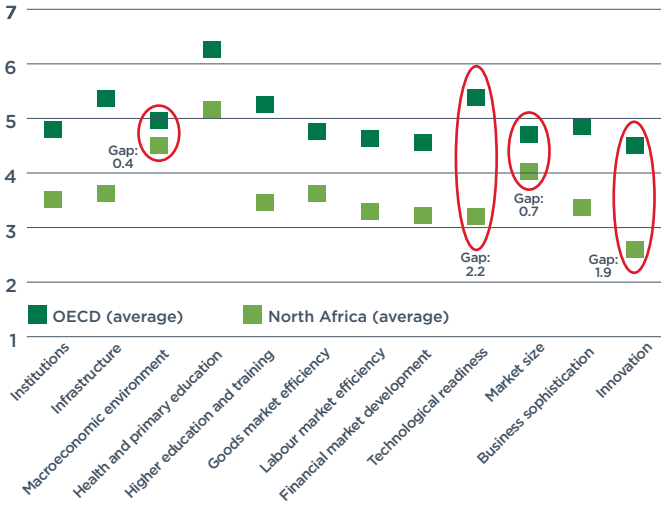
The quality of Africa's institutions, as measured by indexes of 'competitiveness', thus stands reasonably in international comparison, and is slowly improving. Nevertheless, there is a still an important gap between African and OECD economies. If that gap is to be narrowed significantly, major investment will be required in a number of areas – most notably in infrastructure and technological readiness.

FIGURE 20. GLOBAL COMPETITIVENESS INDEX, BY COMPONENT, SUB-SAHARAN AFRICA AND OECD, 2012-2013 (MAX. SCORE = 7)



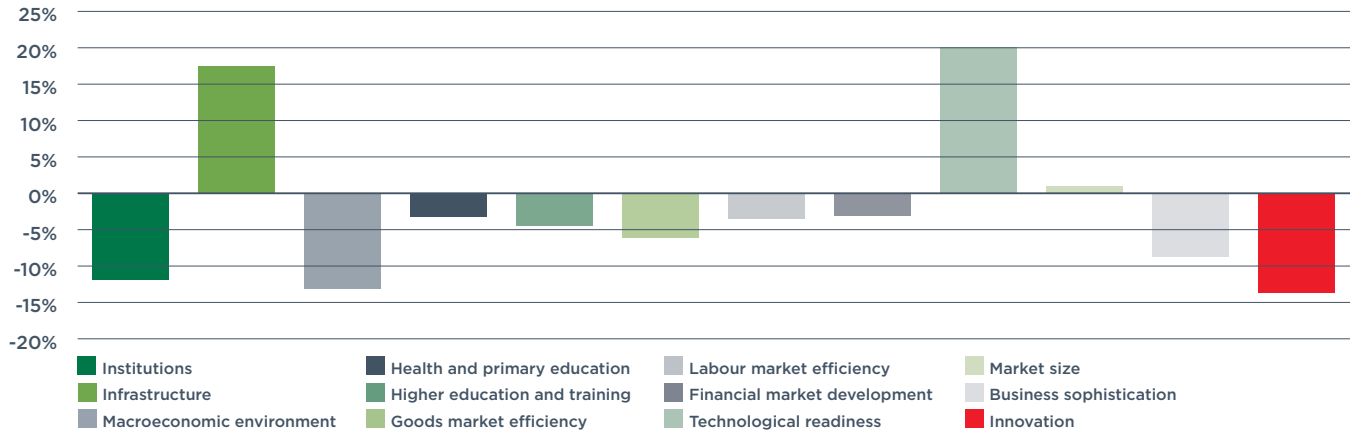
Source: World Economic Forum, Global Competitiveness Index data analyser (2013)

FIGURE 21. GLOBAL COMPETITIVENESS INDEX, BY COMPONENT, NORTH AFRICA AND OECD 2012-2013 (MAX. SCORE = 7)



Source: World Economic Forum, Global Competitiveness Index data analyser (2013)

FIGURE 22. GLOBAL COMPETITIVENESS INDEX, CHANGE BY COMPONENT, NORTH AFRICA, 2007-2013



Source: World Economic Forum, Global Competitiveness Index data analyser (2013)

CHAPTER IV
OUTLOOK AND CHALLENGES

Africa has made much progress; faces challenges; and seems likely, on balance, to see its robust growth sustained.

- Africa's strong growth performance seems likely to continue over the coming decade
- Structural transformation will have to be central in this process
- Resource-rich countries face the 'resource curse' challenge; resource-poor countries face the 'savings shortage' challenge
- Infrastructure, in facilitating the delivery of goods and services that promote prosperity, is crucial
- Within infrastructure, energy and transport are a priority
- Workforce skills, strong markets, political stability, and enforceable property rights too are important
- Financing, delivery, and maintenance, particularly of large-scale, long-lived projects can be difficult
- Multi-layered approaches, often in partnership with private enterprise, are being successfully adopted

THE OUTLOOK FOR GROWTH AND ENERGY

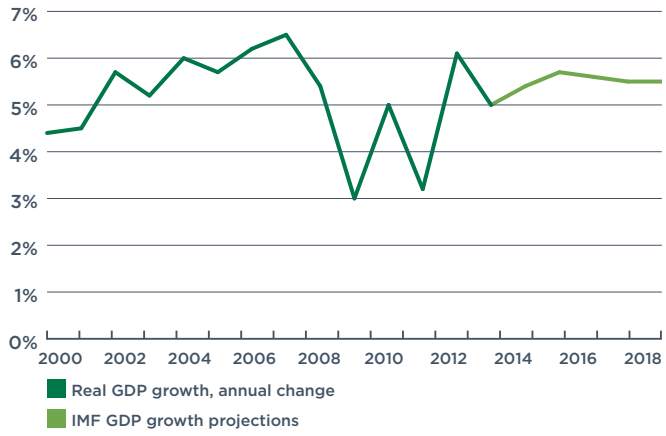
Africa's strong growth performance is likely to continue

Africa's strong growth performance seems likely to continue over the coming decade. The International Monetary Fund (IMF) projects African real GDP growth at 5.5% per year, on average, between 2013 and 2018 (Figure 23). Thus the IMF does not foresee any major overall slowdown. Moreover, it expects 12 of the world's 20 fastest-growing economies to be in Africa. Of those 12, 10 are in the Sub-Saharan region, two in North Africa.

Western Africa is likely to remain Africa's fastest-growing region in the immediate future (Figure 24). Nevertheless, Central and Eastern Africa seem set to achieve growth above 5% in 2013 and 2014:

— Western Africa's strong GDP growth is expected to be driven by Ghana, the Ivory Coast, and Nigeria; and the region is increasingly diversifying beyond resource extraction.
— Eastern Africa's growth is expected to be bolstered by a number of countries growing in the 5% to 7% range: including, Rwanda, Tanzania, Ethiopia, and Uganda.
— Central Africa's growth is expected to be led by Chad and the Democratic Republic of Congo. Political stability and security in this region is key to maintaining growth potential.
— Southern Africa's more moderate growth is likely to be supported by buoyant growth in Angola, Mozambique, Zambia, and Botswana.

FIGURE 23. AFRICA'S REAL GDP GROWTH, 2000-2018



Source: IMF World Economic Outlook Dataset (2013)
Notes: IMF projections begin in 2013.

FIGURE 24. REAL GDP GROWTH BY REGION (%)

	2011	2012(E)	2013(P)	2014(P)
Central Africa	5.2	5.7	5.7	5.4
Eastern Africa	6.3	4.5	5.2	5.6
Northern Africa	-0.1	9.5	3.9	4.3
Soutern Africa	4.0	3.7	4.1	4.6
Western Africa	6.8	6.6	6.7	7.4

Data source: OECD African Economic Outlook (2013)
Notes: (E) Estimates, (P) Projections

BOX:
OIL AND ELECTRICITY DEMAND IN AFRICA

Oil demand in Africa is likely to be robust over the coming decades, while electricity demand is likely to double by 2035. In OECD countries, by contrast, oil demand is likely to fall.

OIL DEMAND

By 2020, oil demand in Africa is likely to have grown by 23% (Figure A).
Oil demand is expected to increase from 3.1 million barrels per day (mb/d) in 2011 to 3.8 mb/d in 2020. Non-OECD oil demand is likely to grow at a similar rate, from 38 mb/d to 47 mb/d.

OECD oil demand, by contrast, is expected to fall by 6% over a comparable period, from 42 mb/d to 39 mb/d.

By 2035, oil demand in Africa is likely to rise a further 18%, to 4.5 mb/d.
By 2035 demand in Africa is expected to have reached 4.5 mb/d; non-OECD demand is expected to have increased to 57 mb/d.

OECD oil demand, by contrast, is likely to have dropped further, to 33 mb/d.

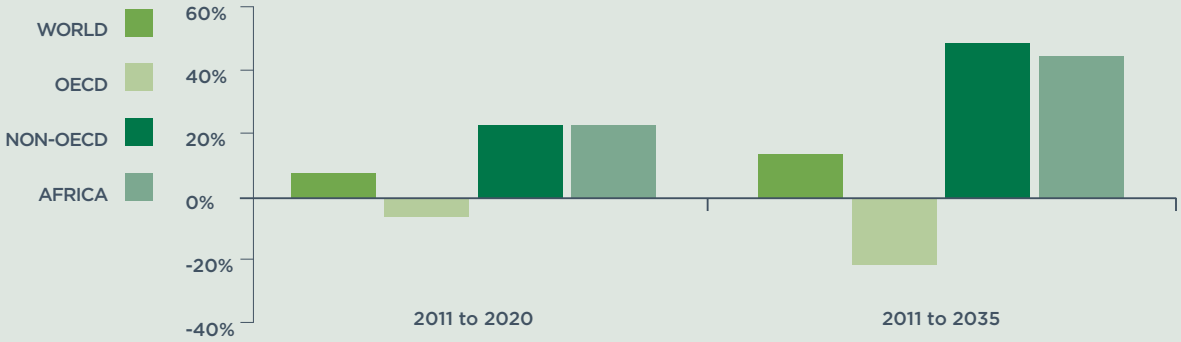
ELECTRICITY DEMAND

Electricity demand, which will grow fast in all regions of the world, may double in Africa by 2035.
Africa's electricity demand is expected to rise from 569 TWh in 2010 to around 1,195 TWh in 2035 (Figure B), a 3% compound average annual growth rate (CAAGR).

Such growth in electricity demand is broadly in line with the likely growth in non-OECD economies generally, where electricity consumption, driven principally by strong Asian demand, is likely to more than double by 2035 (from 8,825 TWh in 2010 to 19,903 in 2035), a 3.3% CAAGR.

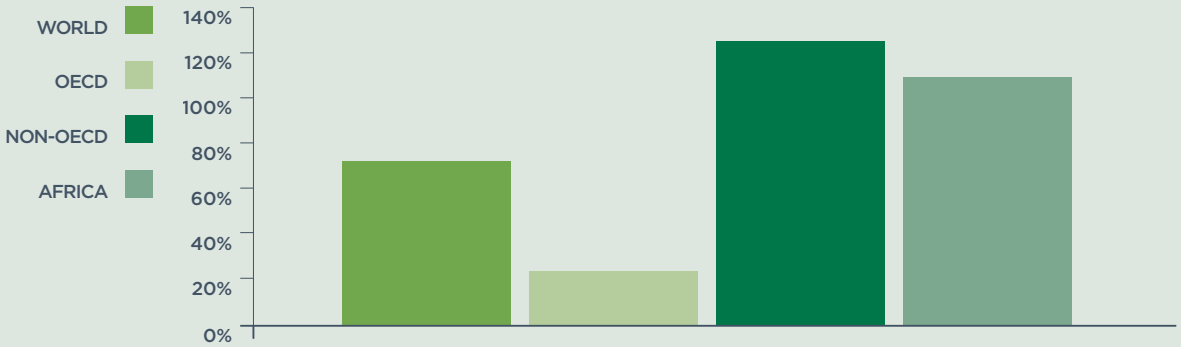
OECD electricity demand, by contrast, is expected to rise more moderately, by under 25%, from 9,618 TWh to 11,956 TWh. This equates to only a 0.9% CAAGR.

FIGURE A: OIL DEMAND BY SELECTED REGION, CHANGE OVER PERIOD



Source: IEA World Energy Outlook (2012)
Notes: New Policies Scenario.

FIGURE B: ELECTRICITY DEMAND BY SELECTED REGION, CHANGE OVER PERIOD 2010-2035



Source: IEA World Energy Outlook (2012)
Notes: New Policies Scenario.

THE CHALLENGE OF STRUCTURAL TRANSFORMATION

Resource-rich economies face three big challenges...

All of Africa's economies face a range of challenges, including importantly engaging in constructive transformational change.

To some extent these challenges are similar in all countries: but there are important differences in the challenges facing resource-rich economies on the one hand, from those confronting resource-poor economies on the other.

CHALLENGES IN RESOURCE-RICH COUNTRIES

In resource-rich economies, the 'resource curse' challenge can take any of three principal forms:

— **The 'consume-it-now' temptation:** governments, especially in poor countries, are often tempted, or pressured, to extract and consume, rather than extract and invest.
— **High per capita export revenues,** and correspondingly high real incomes across the economy as a whole, damage the actual or potential cost competiveness of other activities, such as manufacturing – the so-called 'Dutch disease'.
— **Boom-bust volatility:** meeting public spending commitments when commodity prices and/or export volumes weaken is challenging to fiscal policy and even political stability.

1. The 'consume-it-now' temptation

The 'consume-it-now' temptation. The sustainability of growth and income levels depends upon husbanding, and over time increasing, society's total capital stock.

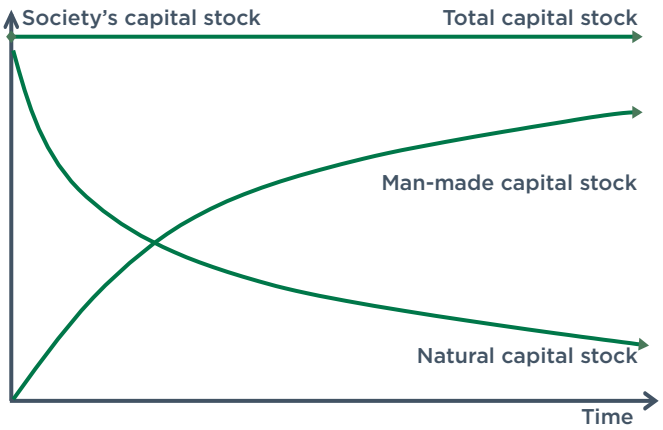
In resource-rich economies with active resource extraction activities, the stock of non-renewable natural resources depletes over time. In order to maintain the overall capital stock, and avoid the 'consume-it-now' temptation, natural resource earnings must therefore be transformed into man-made assets (Figure 25).

Such capital conversion takes place in virtually all resource-rich economies. However, due to differing levels of development between countries, as well as differences in the ability to undertake capital transformation, countries have had different degrees of success in the conversion process, with a tendency, albeit understandably, for revenues to be used to support consumption at the expense of investment.

2. High export revenues per person

High export revenues per person. High export revenues, brought back into the country, drive up real incomes, not just in the exporting sector(s), but across the whole economy. Within limits, this is desirable: but revenues, and hence per capita incomes and thereby wage costs, can become so high that they damage the cost competitiveness of other sectors, such as manufacturing.

FIGURE 25. THE CAPITAL STOCK CONVERSION PROCESS AND THE 'HARTWICK-SOLOW' RULE



Source: Llewellyn Consulting based on Swanson and Johnston (1999)

In the Gulf States, for example, earnings from oil are distributed to the population through a range of measures, which include: low (or zero-rate) direct taxation; cash hand-outs; low-interest loans; free schooling; cheap or free housing; and subsidised (or free) water and electricity.

The effective real wage thereby often exceeds the value of the output that any worker could produce, and hence any wage that he or she could potentially earn, even using the most highly-productive equipment and the newest technologies. Industrial growth and development is thereby stifled, with the result that these economies remain highly resource dependent, with limited job opportunities for the population at large – the so-called 'Dutch disease'.

3. Boom-bust volatility

Boom-bust volatility. Governments in Africa, as elsewhere, are frequently challenged by boom-bust export price and volume volatility, which can threaten not only fiscal, but even political, stability. During a commodity price boom, tax receipts from resource-related industries increase markedly, enabling – often obliging – government spending to rise substantially. When commodity prices fall back, however, and with governments committed to spending that can no longer be afforded, fiscal crisis and/or political upheaval frequently result.

One often-cited historic case[28] is the Democratic Republic of Congo in the late 20th Century. In the 1970s copper prices collapsed, and the economy was unable to sustain its previous levels of real expenditure. War broke out and persisted – on and off – for over two decades. Peace was eventually achieved only in the early 2000s, when the most recent commodity boom took off.

Large resource-exporting countries often experience some combination of the high real wage, 'Dutch disease', effect and 'boom-bust' volatility. In such cases, the two forces reinforce each other. In boom times real wages rise, and manufacturing becomes uncompetitive 'Dutch disease', stifling economic diversity. When commodity prices collapse, the rest of the economy may become competitive in principle; but there is often little capacity, typically because it never had the chance to develop. The economy is therefore unable to generate anything like the previous level of real income (boom-bust syndrome).

Australia and Brazil exemplify both issues, as they continue to struggle both with real wages that have been high by international standards and serious volatility in the prices and the volumes of their commodity exports.

For Australia, the rise in commodity prices in the 2000s was the third sharpest increase in terms of trade for an OECD country since 1960.[29] The mining sector grew strongly, driving up the real wage, at the expense of the non-mining sectors. Recently, the economy's vulnerability to falls in commodity prices has started to become evident again, and has already risen close to the top of the political agenda.

COMMODITY PRICE TRENDS AND SUPER-CYCLES

Commodity price developments thus present a range of challenges to Africa's economies; and in the coming years these challenges may well increase.

Commodity prices in aggregate have been rising in real terms

Between 1900 and 1970, commodity prices in the aggregate were broadly stable globally in real terms. In recent years, however, they have risen considerably.

In a new, long-run, study which places such developments in historical perspective, Jacks (2013)[30] shows that, since 2000, real commodity prices in the aggregate have risen from a multi-year low to over twice their previous long-term historical average. Such levels were last seen in the 1970s, in significant part the product of the 1973/74 and 1978/79 increases in the price of internationally-traded oil (Figure 26).

Commodity prices are subject to super-cycles

Such 'super-cycles' – periods of above-trend real commodity prices – generally last for between 10 and 35 years. They are usually driven importantly by world demand, often closely linked to episodes of industrialisation and urbanisation. And these demand-side effects are on occasion augmented by supply-side capacity constraints, the result of previous weak investment, particularly in the extraction of energy, metals, and minerals.

The majority of past individual-commodity super-cycles started in the 1890s, 1930s, and 1960s; peaked in the 1910s, 1950s, and 1970s; and ended in the 1930s, 1960s, and 1990s. Thus much of the most recent appreciation of real commodity prices in the aggregate likely represents a recovery from their multi-year – and, in some instances, multi-decade – trough in the 1990s.

To the extent that past behaviour is any guide, commodity prices in the aggregate could be due a major fall reasonably soon. If so, an important question for Africa is which commodities, or groups of commodities, might be most affected.

An end to the super-cycle could prove challenging for Africa

While it is possible to get lost in excessive detail, a useful distinction can be made, following Jacks, between two broad sets of commodities which have exhibited quite different behaviours:[31]

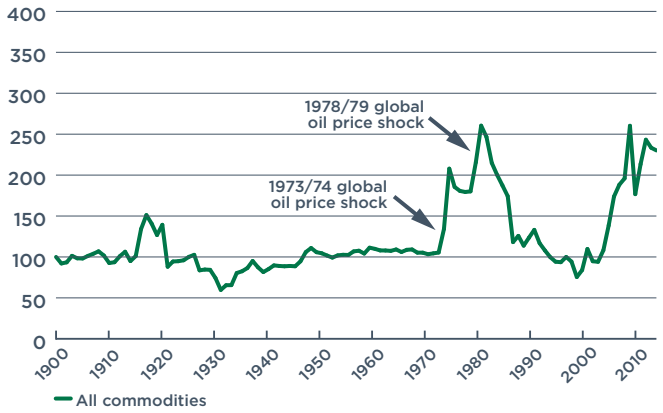
— **"Commodities to be grown",** which have been on a secular downward trend in real terms since the mid-1970s (Figure 27), and
— **"Commodities in the ground"** – including importantly oil – which rose, fell, and then rose again. Prices of this group of commodities in the aggregate now stand in real terms at over three times their long-run historical average (Figure 27).

"Commodities in the ground" in particular could be in for a significant fall if, as seems likely, the exploitation of shale gas and new oil recovery techniques, particularly in the United States, exerts downward pressure on the price of internationally traded oil. Although there are many uncertainties in this area, we judge it likely that these developments, taken together, will lead to a sub-$100 per barrel price (Brent, in real terms) by 2020.[32]

Not only the prices of commodities, but also their (export) volumes, are highly volatile (Figure 28). The year 2000, for example, saw a particularly large increase of 37%, whereas 1998 and 2009 saw large falls, of 19% and 25% respectively, reflecting the Asian and then the Global Financial crises.

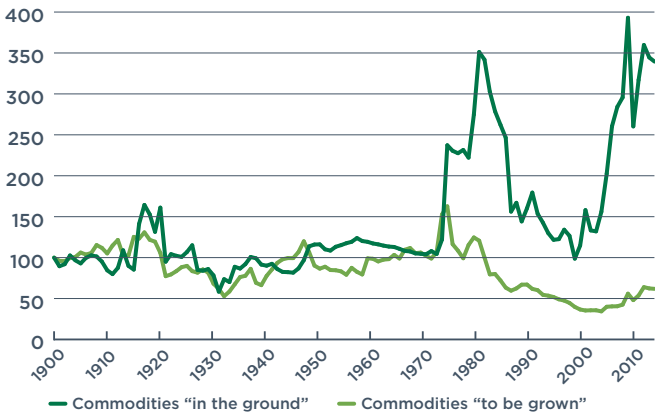
We judge it likely that the Western economies as a group (and including Japan) will remain for some years yet in a period of slow economic growth, and that this will spill over – as it is already doing to some extent – into the developing economies, especially China, India, and Brazil. To the extent that this proves to be the case, not only the prices of primary commodities, but also their export volumes, are likely to exhibit significant volatility – downwards in the coming several years as prices adjust to weak activity, and then upwards when global recovery finally comes.

FIGURE 26. REAL COMMODITY PRICE INDEX, 1900-2013



Source: Jacks, D.S. (2013)
Notes: 1900=100

FIGURE 27. REAL COMMODITY PRICE INDEX, 1900-2013



Source: Jacks, D.S. (2013)
Notes: 1900=100

INFRASTRUCTURE AND OTHER CHALLENGES

Structural change helps to mitigate the resource curse

Structural transformation is key to avoiding, or at least minimising, the various dimensions of the 'resource curse'. The OECD suggests a multi-layered approach,[33] which combines an investment in fundamentals (including infrastructure, education, regulations, etc.) with a push for structural transformation (Figure 29):

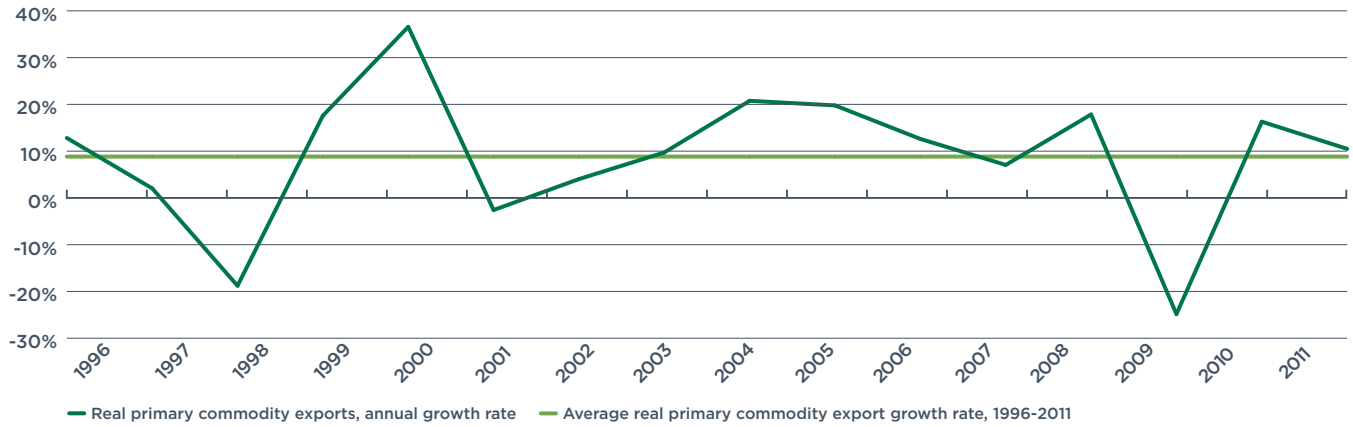
— The revenues from natural resources facilitate both investment in public services (4th layer) and development of a balanced business and regulatory environment for natural resources (3rd layer).
— The natural resource sector requires specific revenue and tax management (2nd layer).
— Finally, active government policies facilitate structural changes (1st layer), raising productivity and promoting linkages across all the sectors of the economy as a whole.

Infrastructure, skills, and strong markets are important

— Creating the necessary conditions for structural change requires that a country gets a lot of things right. African Economic Outlook country experts have highlighted the most important factors that in their judgement have been lacking in recent decades, or have led to negative change in their countries (see Figure 30). Some clear lessons for future structural change programmes can be drawn:

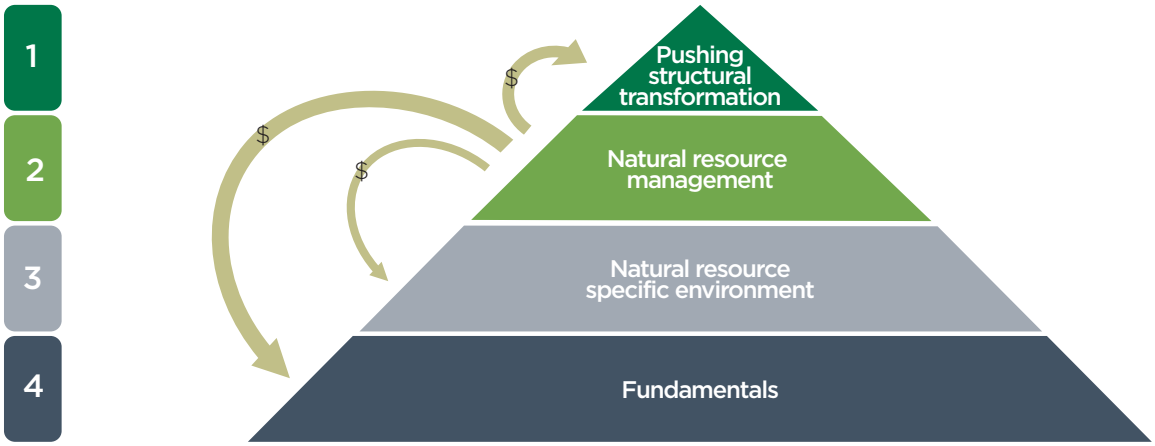
1. Infrastructure is crucial for all sectors.
2. Workforce skills are important, particularly in manufacturing.
3. Political stability and peace are needed to enable structural change.
4. Clear and enforceable property rights are an important underpinning.

FIGURE 28. AFRICA'S REAL PRIMARY COMMODITY EXPORT GROWTH, 1996-2011



Source: UNCTAD, UNCTADstat (2013)

FIGURE 29. NATURAL-RESOURCE-BASED STRUCTURAL TRANSFORMATION: 4-LAYER APPROACH



Source: OECD African Economic Outlook (2013)

Infrastructure is central to running a country's economy

Infrastructure is central to the functioning of a country's economy. It can be thought of as the economic arteries and veins that enable people, capital, manufactured goods, commodities, water, energy, information, and more to move efficiently into, within, and out of the country.

Infrastructure includes the assets that underpin the economy's networks for transport; energy generation, distribution and storage; communications; waste management; and water distribution and treatment.

A broad definition includes physical and non-physical assets

Arguably, the most important infrastructure extends to major roads, railways, airports, seaports, power lines, pipes and wires; electricity and gas; electronic communications, including broadband; water, sewerage and waste; flood defences; and intellectual capital. Most economists would, however, also include 'social infrastructure': housing; hospitals; schools; universities; the legal system; government research institutions, and more.

Infrastructure thus facilitates the delivery of goods and services that promote prosperity and contribute to quality of life; and it adds to the productive capacity of the economy. Empirical analysis suggests that it can also have effects on economic growth over and above those arising from simply adding to the capital stock, by facilitating:

— Trade and the division of labour;
— Competition in markets;
— Efficient allocation of activity across regions;
— Diffusion of technology;
— Good organisational practices; and
— Access to new resources, both physical and human.

Insufficient infrastructure was cited as a cause of poor past performance in Africa by nearly half of the country experts.[34]

Energy provision and transport are a priority

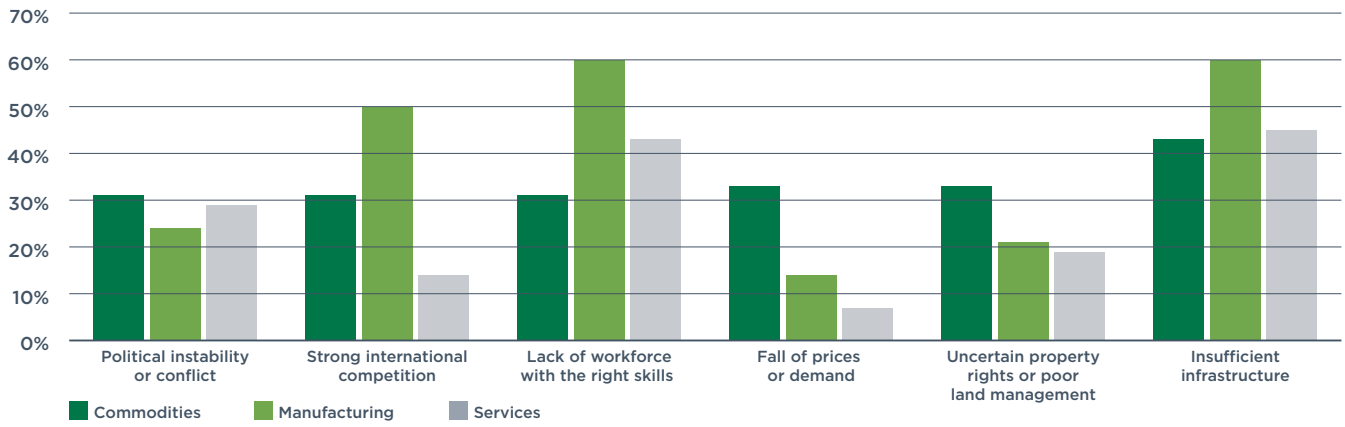
Within infrastructure, energy provision is cited by many countries as the most important single obstacle to growth, particularly in economies that have important natural-resource-based industries and firms. Energy is a key input to resource processing, and electricity is a necessary input for most productivity-enhancing technologies.

Transport infrastructure is important both for industrial and public use. Industry-led development can bring co-benefits, e.g. roads and railways to mining sites may provide people with better access to jobs, and markets, in remote areas.

Infrastructure investment is a continuing process

Infrastructure is thus central to structural change, and is needed at all stages of economic development. Investment in infrastructure is needed to: replace end-of-life assets; meet growing demand (in part due to population growth); and keep pace with technological change.

FIGURE 30. MAIN CAUSES OF NEGATIVE CHANGE BY SECTOR OVER THE LAST 20 YEARS, PERCENTAGE OF COUNTRIES



Source: OECD African Economic Outlook, Country experts survey (2013)

Maintaining adequate levels of infrastructure presents a number of challenges, including but not limited to:

- **Financing.** Securing funds to finance large-scale, and long-lived, infrastructure projects can be difficult, particularly in economies with less-developed financial institutions.
- **Delivery.** Developing capable project management, efficient logistics, and suitable supply chains, and delivering on time and on budget, is not straightforward.
  - Governments, particularly those in developing countries, increasingly often are asking for tax revenue at least partly in the form of delivered infrastructure.
- **Maintenance.** Infrastructure incurs significant continuing costs after it is built: roads, railways, ports, and buildings, have to be maintained, and be upgraded periodically.

Work is never done; even in advanced economies

Financing, delivering, and maintaining infrastructure is a continual challenge in all economies. Even high per capita income countries such as the US and the UK struggle to maintain, let alone to improve and update, their infrastructure, which could potentially hamper their growth, and limit their growth potential. In low-population-density Africa, these requirements are especially challenging.

Ensuring adequate skilled labour is a challenge

The role of skills development in structural change programmes is emphasised by many analysts. Skills mismatch in an economy can limit economic performance. Lack of skills in the manufacturing sector, in particular, has been cited by more than half of country experts as a cause of poor past performance in Africa.[35]

In many successful resource economies the supply of skilled engineers has proved to be a particular constraint. Anticipating skill needs is important as economies' structures evolve. Schools and universities have to be involved and supportive in tracking and developing skill needs as they develop. Regular communication with domestic and international companies also is helpful. In the US and Sweden, for example, technical universities have been set up to support the resource sector. In the US, Stanford University and the University of California at Berkeley became the mainstay of research-intensive industries.

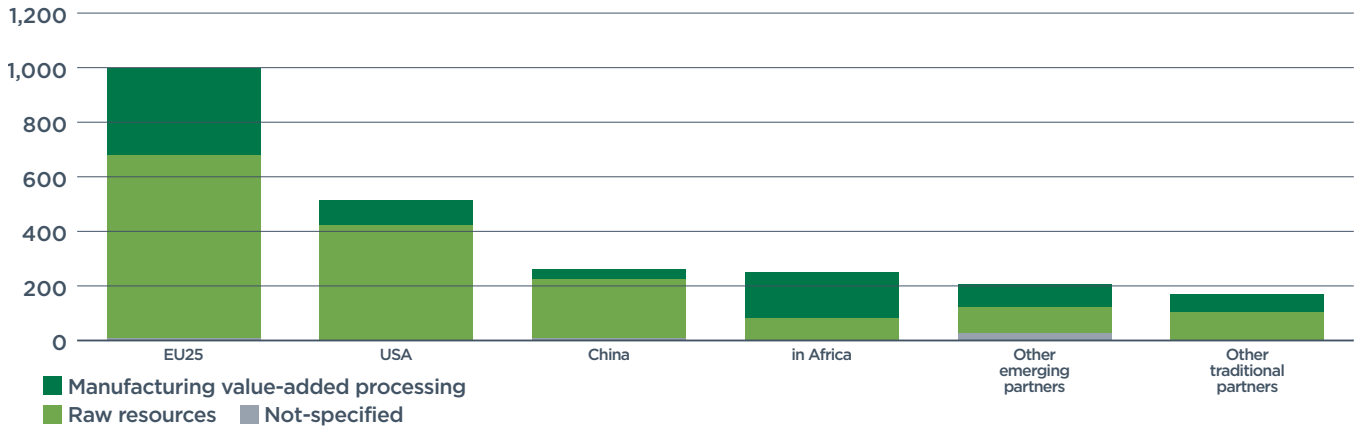
In Africa, there is currently a mismatch between the large share of agriculture in the economy and the small numbers of students studying agriculture. Foreign investment can help to develop and advance the skills of the agricultural workforce. But many scientific challenges in agriculture are country- or even region-specific, so that the requisite knowledge, and hence skills and training, have to be developed domestically, in the way that was developed in, for example, Australia and New Zealand in the 1950s.

Access to strong markets is also key

Strong markets too are important in achieving structural change, and should not be overlooked. Exports are dependent on access to international markets. Natural-resource processing and advanced manufacturing often need economies of scale to be profitable. As a result, markets – internationally and domestically – need to be large enough to generate demand on the requisite scale.

Africa benefits from access to the markets of the EU, the US, and China. Intra-African trade, with the highest share of manufactured products, offers significant potential too (Figure 31). Strengthened regional integration would improve co-ordinated negotiation with trading partners, and improve access to international markets.

FIGURE 31. MANUFACTURING INTENSITY, BY AFRICAN EXPORT DESTINATION, 2005-2010 ($ BN)



Source: OECD African Economic Outlook (2013)

BOX: SOVEREIGN WEALTH FUNDS AND AFRICA

Sovereign Wealth Funds (SWFs) are an effective way for resource-rich economies to insulate themselves, at least partially, from various forms of the 'resource curse'. Such funds were introduced in Africa in the 1990s, and are now a feature of at least 15 countries. Their role in African investment is likely to grow.

BACKGROUND

Sovereign Wealth Funds emerged in the 1950s.
Sovereign Wealth Funds emerged as a way to manage actively foreign exchange reserves accumulated from commodity sales, other strong exports, or high savings. They are usually government-owned investment vehicles, managed either by a state-controlled entity or by external managers.

INVESTMENT APPROACH: HOME OR ABROAD?

Rich, low-population countries, such as Norway and Singapore, typically invest abroad.
Norway, one of the world's top ten oil exporters,[1] invests a large part of its oil revenues abroad, mostly in equities, for the benefit of future generations.

For poorer countries, however, the strong case is for investing largely at home.
The present generation has a pressing need for income growth:

— Well-thought-through investment will raise both incomes (GDP per capita) and consumption as economies develop, leaving future generations better off too.
— Consumption could be brought forward to match current needs, e.g. to alleviate poverty or provide access to capital for investment.

THE AFRICAN EXPERIENCE

SWFs started in Africa in the 1990s.
At least 15 countries now have SWFs, including: Algeria; Angola; Botswana; Chad; Ghana; Libya; Mauritania; and Nigeria. The funds are motivated principally by two stabilisation considerations:

1. The desire to smooth expenditure in the face of volatile commodity prices; and

2. To protect against a progressive decline in revenues as a result of depletion of non-renewable resources.

African SWFs are relatively small compared with their Middle Eastern or Asian counterparts. Their role as long-term institutional investors in Africa is, therefore, currently limited. Some SWFs in Africa have also struggled with poor governance structures.[2]

SWFs are likely to play a bigger role in African investment.
African funds investing domestically, and foreign SWFs investing in Africa, are, however, likely to play a growing role in African investment. Where the institutional framework is lacking, one solution is for companies to deliver investment, and infrastructure.

[1] *WTO, International trade in natural resources, 2012*
[2] *AfDB, Africa's Quest for Development: Can Sovereign Wealth Funds help?, 2011*

SOME RECENT ENCOURAGING EXAMPLES

Africa is addressing a number of its key challenges, including economic integration, structural transformation, and external financing.

Domestic processing is becoming more important

Domestic processing in Africa is becoming increasingly common, contributing importantly to economic development. Between 2000 and 2011, Africa's raw commodity exports expanded 120% in real terms, from $90bn to $190bn (Figure 32). Exports of processed goods, meanwhile, grew by 55% in real terms, rising from $60bn to $100bn.

Significant though this progress has been, however, processed goods as a share of Africa's export basket thereby fell, from 40% to 30%: there is clearly major scope for the further development of primary processing.

A number of regional policies are underway

A number of regional policies are underway in Africa. The African Union, the UN Economic Commission for Africa, the African Development Bank, and regional committees are working together to harmonise economic, trade, and immigration policies to boost African integration and thereby create economically-larger markets.

There are plans to increase regional economic integration

There are also plans to accelerate regional integration. These include the establishing of an African Economic Community with a single currency, which The Abuja Treaty of 1991 set out to achieve by 2023. The Treaty is currently in its third stage, involving the development of regional free trade zones and customs unions by 2017.

Regional trade zones created thus far include the:

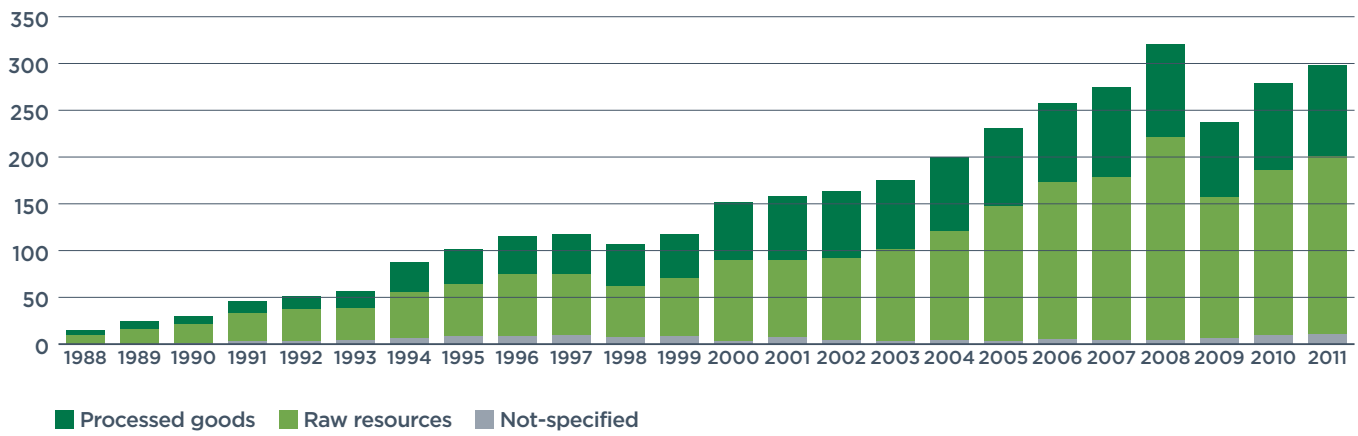
— Common Market for Eastern and Southern Africa (COMESA);
— Economic Community of Western African States (ECOWAS);
— East African Community (EAC); and
— Southern African Development Community (SADC).

Countries are undergoing structural transformation

A number of countries are undergoing structural transformation, while understanding the importance of such transformation reflecting country endowment and capability. Botswana, South Africa, and Tunisia are three contrasting examples of recent efforts:[36]

— **Botswana** has used its role as a major diamond producer to negotiate contracts that support structural transformation. A 50-50 joint venture was set up between the government and DeBeers, the diamond trading company, to release an amount of diamonds to local manufacturers. The company also sets targets for domestic worker training. As part of the sales agreement, DeBeers agreed to transfer its aggregation and sales activity from London to Botswana by the end of this year.
— **South Africa** has used its mining industry experience to improve local technology development and its local supply network. The government has backed this market-driven linkage development, and the country has become a net exporter of mining equipment and specialist services.
— **Tunisia,** lacking significant natural resources, has adopted a broad strategy to promote agriculture, manufacturing, and services in an effort to diversify its economy. Priorities including transport components, information and communications technology (ICT), and textiles and shoes were identified. Tunisia then entered a free-trade agreement with the EU.

FIGURE 32. AFRICA'S EXPORTS, 1988-2011 (US $ BN)



Source: OECD African Economic Outlook (2013)
Notes: Constant 2000 prices.

African countries are increasingly accessing international capital markets and funds to provide finance, including importantly for infrastructure development.

International capital markets are increasingly accessed

In the 1990s, regular access to international capital markets was limited largely to three countries: South Africa; Morocco; and Tunisia. In the 2000s, however, Gabon and Ghana participated in international capital markets, and the Democratic Republic of Congo undertook a debt exchange.

Since 2011, there have been at least four debutant sovereign bond issuers: Zambia; Namibia; Nigeria; and Senegal. These issuances typically raised between $500m and $750m on a 10-year bond; and a number were oversubscribed. Other countries which have either entered international debt markets recently, or plan to do so, include: Angola; Rwanda; Tanzania; Kenya; Uganda; and Mozambique.

CHALLENGES IN RESOURCE-POOR COUNTRIES

Resource-poor economies face a tougher challenge

Resource-poor economies, not having revenues to finance investment in physical and human capital, face an even bigger challenge than those countries that are well endowed. These economies have, perforce, to accumulate investment out of savings from current income. This is particularly demanding when per capita incomes are low; but it does become at least somewhat easier as countries become richer.

Transformation can be achieved: Japan went all the way

Transformation for resource-poor economies can, however, be achieved. Japan lacks virtually all of the key natural resources necessary for industrial activity, particularly oil and land; yet it managed to go 'all the way' to becoming the world's second largest economy. This transformation was achieved without relying on natural capital to fund investment; and despite losing one third of its national wealth in World War II.

Ethiopia is an African example

In Africa, Ethiopia is an example of a resource-poor country that has nevertheless achieved robust growth. With no significant natural resources, Ethiopia struggled to develop its economy beyond subsistence farming. The 1980s were particularly difficult: the country experienced a series of famines, together with civil wars. Political and economic conditions stabilised only with the overthrow of the junta in 1991.

By last year, however, Ethiopia had recorded its ninth straight year of robust growth. The government-initiated five-year development programmes have been central to this progress. The latest, the *Growth and Transformation Plan* (2010/11 to 2014/15), is aiming for high and broad-based growth, with a particular emphasis on agricultural transformation and industrial development.

Ethiopia has also attracted significant foreign investment, in textiles, leather, commercial agriculture, and manufacturing. The country has also made considerable strides with social and human development e.g. progress to meet the Millennium Development Goals (MDGs).

CHAPTER V
COUNTRY PAGES

The summary macroeconomic country outlooks in this annex are drawn from a number of sources, including particularly the country notes section of the OECD African Economic Outlook (2012 and 2013).

ANGOLA

- **Growth prospects.** Real GDP is likely to grow strongly, by around 8% in 2013 and 2014, driven by oil and gas sector expansion and public expenditure to encourage economic diversification.
- **Inflation outlook.** Inflation is likely to ease into single figures in 2013, and remain below 10% in 2014.
- **Fiscal position.** The budget surplus has shrunk, but at around 5% of GDP in 2013 it remains sizeable. Reforms to improve public financial management and fiscal transparency have been implemented.
- **Policy challenges. Diversification:** of the economy, beyond oil. **Natural resource earnings:** ensuring transparency, accountability, and equitable distribution. **Skills:** matching skills to jobs. The unemployment rate is around 25% and a growing number of young people have mismatching skills. **Human development:** indicators are improving, however, more could be done, particularly to strengthen the social safety net.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	3.9	7.9	8.2	7.8
Real GDP per capita growth	1.1	5.2	5.5	5.1
CPI inflation	13.5	10.3	8.7	9.3
Budget balance % GDP	10.2	7.8	4.8	3.5
Current account balance % GDP	9.6	8.2	8.1	7.6

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3	SERVICE STATIONS
	49,550	44

BENIN

- **Growth prospects.** Real GDP is expected to pick up to slightly over 4% in 2013 and 4.6% in 2014, with the economy continuing its moderate recovery from the global economic crisis and severe floods in 2010.
- **Inflation outlook.** Inflation spiked in 2012 due to a sharp increase in the price of adulterated petrol in January last year. Nevertheless, inflation is expected to moderate to around 3% in 2013 and 2014.
- **Fiscal position.** Sustaining the reform of public finances and modernisation of the administration will be important for maintaining macroeconomic stability. The budget deficit is expected to stay below 3% to 2014.
- **Policy challenges. Agriculture:** implementation of the strategic plan to revive the agricultural sector, which is expected to support diversification too. **Trade:** to transform Benin from a transit country to a logistics and exports hub. **Infrastructure:** to repair damaged, and replace antiquated, infrastructure. **Human development:** maintain efforts through the poverty reduction strategy to alleviate persistent poverty.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.5	3.6	4.1	4.6
Real GDP per capita growth	1.0	1.1	1.6	2.1
CPI inflation	2.7	6.7	3.1	3.0
Budget balance % GDP	-1.8	-1.5	-2.3	-2.3
Current account balance % GDP	-10.0	-9.5	-10.4	-10.6

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	4,800

BOTSWANA

- **Growth prospects.** Real GDP growth is likely to be in the moderate 5-6% range in 2013 and 2014. Botswana's main commodity export (diamonds) continues to be adversely affected by sluggish global growth. Non-mining sectors, however, are performing strongly.
- **Inflation outlook.** Inflation eased to 7.2% in 2012 from 8.5% in 2011, and the outlook is for further easing. The figure is likely to fall back within the 3-6% target range in 2014.
- **Fiscal position.** Botswana has undergone fiscal consolidation following the increased budget deficits caused by the global financial crisis. The budget deficit is expected to be 5%-odd of GDP in 2013 and 2014.
- **Policy challenges. Diversification:** further reducing dependence on the mining sector. Botswana has, however, been prudent with management of its natural resource earnings. **Human Development:** notwithstanding significant progress in social and human development, over 20% of the population are classified as extremely poor. **Unemployment:** the national rate is around 17%, with youth unemployment a particular issue.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	8.0	5.8	5.6	5.5
Real GDP per capita growth	6.8	4.7	4.6	4.5
CPI inflation	8.5	7.2	6.2	5.9
Budget balance % GDP	-8.4	-1.2	-5.5	-4.6
Current account balance % GDP	2.4	6.5	7.4	6.3

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	AIRPORTS	STORAGE M^3	SERVICE STATIONS
	4	13,263	32

CONGO REPUBLIC

- **Growth prospects.** Real GDP is expected to grow a satisfactory 5% in 2013 and 2014. Oil is the main pillar of growth; others include forestry, transport and telecommunications, and government public sector investment.
- **Inflation outlook.** Inflation is expected to fall back from its recent high in 2012. CPI inflation of 4.2% in 2013, and just below 3% in 2014, is projected.
- **Fiscal position.** The budget surplus is expected to be around 3% in 2013, and 2% in 2014. This is much lower than recent large surpluses.
- **Policy challenges. Diversification:** of the economy, beyond oil. The government's public investment programme is particularly important here. **Structural reform:** improving the business climate, upgrading infrastructure, and improving education and training systems. **Human Development:** reducing the 44% poverty rate – and high unemployment rate – remain a significant challenge.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	3.4	4.9	5.1	5.3
Real GDP per capita growth	0.9	2.4	2.6	2.8
CPI inflation	1.8	5.1	4.2	2.9
Budget balance % GDP	16.4	2.4	3.2	2.4
Current account balance % GDP	0.8	0.3	0.6	-3.0

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	SERVICE STATIONS
	31

DEMOCRATIC REPUBLIC OF CONGO

- **Growth prospects.** Real GDP growth is expected to accelerate from 7.2% in 2012 to a little over 8% in 2013, and over 9% in 2014. Strong growth is likely to continue to be driven by the extractive industries, agriculture, and construction.
- **Inflation outlook.** Inflation pressures were contained in 2012: CPI inflation dropped to 6.4%, from 15.4% in 2011. Inflation is expected to ease further, to around 6% in 2013 and then 5.5% or so in 2014.
- **Fiscal position.** Public finance management has been tight: this has helped to stabilise the macroeconomic framework. The budget deficit is expected to fall steadily, from 6.2% in 2012 to around 5% in 2013 and 3% in 2014.
- **Policy challenges. Structure of the economy:** to develop the economy beyond the mining and agriculture sectors. **Infrastructure:** to improve infrastructure, particularly the electricity supply. **Food shortages:** to improve agricultural productivity, and food supply. **Human development:** poverty remains a significant issue affecting around two-thirds of the population. Youth unemployment is also a major issue.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	6.9	7.2	8.2	9.4
Real GDP per capita growth	4.2	4.6	5.6	6.8
CPI inflation	15.4	6.4	5.9	5.5
Budget balance % GDP	-0.4	-6.2	-5.2	-3.0
Current account balance % GDP	-11.5	-11.1	-11.0	-9.1

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	12,500

GHANA

- **Growth prospects.** Real GDP growth decelerated to 7.1% in 2012, following a peak in 2011 driven by a start-up in oil production. The outlook for GDP remains constructive, however, with growth likely to pick up to around 8% in 2013, and a little under 9% in 2014. Investments in oil and gas, public infrastructure, and commercial agriculture are likely to be the main drivers.
- **Inflation outlook.** CPI inflation is expected to remain in single digits, at around 9%, through to 2014.
- **Fiscal position.** The budget deficit widened to 4.9% in 2012, but the fiscal outlook is improving. The budget deficit is expected to fall to 3.5% in 2013, and 3.0% in 2014.
- **Policy challenges. Oil revenues:** utilising oil revenues to transform the economy. The legal framework to manage Ghana's oil wealth is a promising start. Oil revenues could put the exchange rate under upward pressure. **Employment:** developing somewhat more labour-intensive sectors such as manufacturing and agro-processing to tackle the employment challenge. **Human development:** notwithstanding significant progress in reducing extreme poverty and primary education, infant mortality remains a challenge.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	14.4	7.1	8.0	8.7
Real GDP per capita growth	12.1	4.8	5.7	8.7
CPI inflation	8.7	9.2	8.9	8.5
Budget balance % GDP	-3.9	-4.9	-3.5	-3.0
Current account balance % GDP	-9.6	-11.2	-14.4	-14.9

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	5,400

IVORY COAST

- **Growth prospects.** Real GDP growth rebounded to 8.6% in 2012 – with the return of political, social, and institutional normality – following a 4.7% fall in 2011. GDP growth is expected to pick up to nearly 9% in 2013 and almost 10% in 2014, driven by oil and gas production, and increases in investment.
- **Inflation outlook.** Inflation eased from 4.9% to 2.1% in 2012, and is expected to remain stable at around 2% through to 2014.
- **Fiscal position.** The budget deficit increased from 1.8% to 3.5% in 2012, in large part due to efforts to revive the economy. Notwithstanding this increase, the country completed the Heavily Indebted Poor Countries (HIPC) initiative last year. In 2013 the budget deficit is likely to rise to 4%, but then fall back to around 3% in 2014.
- **Policy challenges. Structural transformation:** improving links between the resource sector and other sectors. **Natural resource management:** to increase transparency. **Agriculture:** as the world's biggest cocoa producer, increasing the variable rate of agricultural production processing remains a challenge. **Unemployment:** reducing youth unemployment and matching training and employment opportunities.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	-4.7	8.6	8.9	9.8
Real GDP per capita growth	-6.8	6.5	6.7	7.5
CPI inflation	4.9	2.1	2.2	2.3
Budget balance % GDP	-1.8	-3.5	-4.0	-3.1
Current account balance % GDP	6.7	-3.3	-3.8	-1.9

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	176,570

MALAWI

- **Growth prospects.** Real GDP growth is expected to rebound to 5.5% in 2013, and to a little over 6% in 2014, following the slowdown in 2012, which was due to drought and a foreign exchange shortage. Growth is expected to be driven by a recovery in agriculture, manufacturing, and trade.
- **Inflation outlook.** Inflation jumped to 19.2% in 2012 following a series of macroeconomic challenges leading to higher inflation. Nevertheless, inflation is expected to moderate slightly in 2013, and to fall to under 8% in 2014 as the new government implements key policy reforms.
- **Fiscal position.** The budget deficit rose to 7.2% in 2012 before new measures were brought in to tighten fiscal policy. Notwithstanding these measures, the deficit is expected to be around 7% through to 2014.
- **Policy challenges. Exchange rate:** to provide stability. **Natural resource management:** improving transparency. **Structural transformation:** to use natural resource revenues to invest in infrastructure and social services. **Employment:** to reduce working poverty; and youth unemployment.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	4.3	2.0	5.5	6.1
Real GDP per capita growth	1.1	-1.2	2.3	2.8
CPI inflation	6.4	19.2	17.6	7.5
Budget balance % GDP	-2.8	-7.2	-7.4	-7.6
Current account balance % GDP	-17.9	-12.7	-7.0	-9.5

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	AIRPORTS	STORAGE M^3	SERVICE STATIONS
	2	11,478	52

MOZAMBIQUE

- **Growth prospects.** Real GDP growth is expected to remain robust, rising from 7.4% in 2012 to nearly 9% in 2013 before edging lower, to around 8%, in 2014. Increased coal production, large infrastructure projects, and credit expansion are expected to be the main growth drivers.
- **Inflation outlook.** Inflation fell to historic lows of 2.7% in 2012. This opened up room for the central bank to maintain an expansionary monetary stance. Inflation is expected to rise to around 6.5% in 2013, and moderate to under 6% in 2014.
- **Fiscal position**. Public finances are under pressure from an ambitious infrastructure programme, expansion of the social safety net, and decreasing foreign aid flows. The fiscal deficit is expected to rise from 8.2% in 2012, to around 9% in 2013 and 2014.
- **Policy challenges. Diversification:** to expand economic activities beyond resource extraction. **Fiscal:** to broaden the fiscal base as aid flows diminish; and to balance infrastructure investment and social safety nets. **Gas reserves:** to secure economic viability. **Human development:** to sustainably reduce persistent poverty levels and foster human development.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	7.3	7.4	8.5	8.0
Real GDP per capita growth	5.0	5.1	6.3	5.8
CPI inflation	10.4	2.7	6.5	5.7
Budget balance % GDP	-4.3	-8.2	-9.2	-9.5
Current account balance % GDP	-10.0	-18.8	-15.5	-15.8

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	84,000

NAMIBIA

- **Growth prospects.** Real GDP growth is expected to remain moderate and stable through to 2014. The growth rate is expected to ease from 4.7% in 2012 to just over 4% in 2013 and 2014. Mining and construction sectors are expected to remain the main growth drivers.
- **Inflation outlook.** Inflation rose to 6.5% in 2012, from 5.0% in 2011. However, inflation is expected to moderate to around 5% in 2013 and 2014.
- **Fiscal position.** The fiscal deficit rose from 5.7% in 2011 to 9.0% in 2012, due in large part to expansionary policies to support growth. Nevertheless, the fiscal deficit is expected to fall below 5% in 2013 and 2014.
- **Policy challenges. Natural resource management:** to strengthen policies and improve linkages with other sectors. **Structural change:** to support economic diversification. **Infrastructure:** to alleviate bottlenecks. **Human development:** to reduce poverty and inequality. **Labour market:** to reduce unemployment (particularly youth unemployment); and to match jobs to skills.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	4.9	4.7	4.2	4.3
Real GDP per capita growth	3.1	3.0	2.5	2.7
CPI inflation	5.0	6.5	5.5	4.9
Budget balance % GDP	-5.7	-9.0	-4.7	-4.6
Current account balance % GDP	-1.4	3.2	2.3	3.0

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	AIRPORTS	STORAGE M^3	SERVICE STATIONS
	3	101,528	57

NIGERIA

— **Growth prospects.** The outlook for GDP is constructive. Growth is likely to edge higher from 6.6% in 2012 to nearly 7% in 2013, and slightly higher in 2014. Capital-intensive sectors, particularly the oil sector, are expected to continue to drive the economy.
— **Inflation outlook.** Inflation rose to 12% in 2012, but the central bank's tight monetary stance prevented it from rising further. Inflation is expected to ease to below 10% in 2013 and 2014.
— **Fiscal position.** A budget surplus of 3.7% of GDP was achieved in 2012, following the small 0.1% deficit in 2011. The government's fiscal consolidation stance supported this improvement. The surplus is expected to rise to above 4% in 2013, and to reach nearly 6% in 2014.
— **Policy challenges. Diversification:** of the economy outside the oil sector; to develop broad-based growth. **Infrastructure:** to address the infrastructure deficit, particularly power, road transport and railways. **Agriculture:** to modernise the sector. **Human development:** to ensure that robust growth translates into increased job creation and/or poverty alleviation.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	7.4	6.6	6.7	7.3
Real GDP per capita growth	4.9	4.1	4.2	4.8
CPI inflation	10.9	12.0	9.7	9.5
Budget balance % GDP	-0.1	3.7	4.4	5.7
Current account balance % GDP	3.2	10.4	11.8	14.6

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

SENEGAL

— **Growth prospects.** Real GDP is expected to continue its recovery from the slowdown in 2011, when agriculture suffered. Growth is expected to rise from 3.7% in 2012, to over 4% in 2013 and just over 5% in 2014. Infrastructure investments, particularly in roads and energy, are likely to be the main growth drivers.
— **Inflation outlook.** The outlook for inflation remains favourable. CPI inflation is expected to ease from 2.5% in 2012 to below 2% in 2013 and 2014.
— **Fiscal position.** The budget deficit rose to 7.0% in 2012 from 6.6% in 2011. The government's programme, including large investment programmes, means that the deficit is expected to stay within the 7-8% range through to 2014.
— **Policy challenges. Mining:** to exploit mining's potential, particularly that offered by phosphate and gold. **Infrastructure:** to increase the pace of large programmes. **Commodity prices:** to insulate the economy from fluctuations in commodity prices. **Agriculture:** to develop resilience to flooding, and other climatic shocks. **Labour market**: to improve the youth employment rate.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	2.1	3.7	4.3	5.1
Real GDP per capita growth	-0.5	1.1	1.7	2.5
CPI inflation	3.4	2.5	1.6	1.8
Budget balance % GDP	-6.6	-7.0	-7.9	-7.4
Current account balance % GDP	-7.7	-8.6	-9.3	-10.0

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	STORAGE M^3
	5,000

SOUTH AFRICA

- **Growth prospects.** Real GDP growth is expected to recover in 2013 following the deceleration in 2012 from social unrest and the euro crisis. Growth is expected to rise from 2.5% in 2012, to 2.8% in 2013, and 3.5% in 2014. Growth is expected to benefit from expanded infrastructure investment and an increase in electrical capacity.
- **Inflation outlook.** Inflation is expected to remain around the 5% level through to 2014, which is within the 3-6% South African Reserve Bank's (SARB) target range.
- **Fiscal position.** The budget deficit rose from 4.2% in 2011, to 4.7% in 2012, driven in part by increases in the public sector wage bill. Nevertheless, the deficit is expected to decrease to 4.0% in 2014.
- **Policy challenges. Natural resources:** to fulfil the potential of the extractive industries. **Infrastructure:** to maintain investment – and alleviate bottlenecks – against a likely challenging global economic environment. **Labour market:** to reduce chronic unemployment. **Human development:** notwithstanding progress with primary education and health, poverty and inequality remain high.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	3.5	2.5	2.8	3.5
Real GDP per capita growth	2.8	2.0	2.3	3.1
CPI inflation	5.0	5.6	5.7	5.5
Budget balance % GDP	-4.2	-4.7	-4.5	-4.0
Current account balance % GDP	-3.4	-5.9	-5.6	-5.3

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

TANZANIA

- **Growth prospects.** Robust growth is likely to continue. Real GDP is expected to have grown by 6.4% in 2012, and to reach around 7% in 2013 and 2014. Manufacturing, trade, transport, and communication activities continue to be the main growth drivers. Growth is likely to be boosted by recent natural gas discoveries.
- **Inflation outlook.** CPI inflation rose to 16.1% from 12.7% in 2011, when higher food prices drove inflation into double digits. However, inflation is expected to moderate to 8.4% in 2013, and to just below 7% in 2014.
- **Fiscal position.** The budget deficit rose to 9.1% in 2012, from 6.0% in 2011. Nevertheless, recent fiscal consolidation has been successful; the deficit is expected to fall to below 4% in 2013 and 2014.
- **Policy challenges. Gas reserves:** to ensure sound management of forthcoming revenues. **Agriculture:** to improve the sector's performance, and growth. **Infrastructure:** to alleviate infrastructure bottlenecks; and to improve energy supply. **Human development:** to increase the pace of poverty reduction; and reduce unemployment, particularly for the urban young.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	6.4	6.4	6.9	7.0
Real GDP per capita growth	3.4	3.3	3.8	3.9
CPI inflation	12.7	16.1	8.4	6.9
Budget balance % GDP	-6.0	-9.1	-3.9	-3.1
Current account balance % GDP	-11.9	-11.1	-11.9	-10.8

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	AIRPORTS	STORAGE M^3	SERVICE STATIONS
	7	79,037	30

ZAMBIA

- **Growth prospects.** Real GDP growth will probably accelerate, from 7.3% in 2012, to 7.5% in 2013, and nearly 8% in 2014. Growth is expected to be led by a rebound in copper mining. Improvements to infrastructure, and the business environment, are also likely to support growth in other sectors.
- **Inflation outlook.** Inflation eased from 8.7% in 2011 to 6.5% in 2012, and is likely to remain in single digits, at around the 6% rate, through to 2014. Recent moderate inflation reflects prudent monetary policy, which is expected to continue.
- **Fiscal position.** After edging lower to 4.2% in 2012, from 4.4% in 2011, the budget deficit is expected to stay in the 4-5% range through to 2014.
- **Policy challenges. Natural resources:** prudent capture and deployment of copper revenues; and to harness potential of non-copper minerals and other natural resources. **Commodity prices:** to insulate the economy from volatile prices. **Labour market:** to ensure robust growth translates into increasing job creation. **Human development:** to increase progress on reducing poverty levels and in tacking health issues.

MACROECONOMIC INDICATORS

	2011	2012(e)	2013(p)	2014(p)
Real GDP per growth	6.8	7.3	7.5	7.8
Real GDP per capita growth	3.9	4.3	4.4	4.7
CPI inflation	8.7	6.5	6.2	6.5
Budget balance % GDP	-4.4	-4.2	-4.8	-5.0
Current account balance % GDP	0.3	-3.3	-3.3	-3.8

Data source: OECD African Economic Outlook 2013, Part 3: Country Notes
Notes: (e) estimates, (p) projection

PUMA ENERGY CAPACITY OUTLETS	AIRPORTS	STORAGE M^3	SERVICE STATIONS
	3	25,844	55

CHAPTER VI
ISSUES FOR DISCUSSION

The matters raised in this publication suggest a range of issues. Readers, and participants in various launch events, may wish to consider and discuss a number of the issues presented below. Readers and participants are therefore encouraged to offer feedback. Thoughts and comments to the address below are welcome:

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An optimistic scene-setter from the OECD:

> *"Despite all the risks our economic outlook for Africa remains optimistic. Africa's impressive growth over the past 15 years and its resilience to the 2009 global recession support such optimism.*
>
> *This is backed by the recent African Competitiveness Report, which confirms Africa´s solid economic performance but also points to the need for more reform.*
>
> *With policies to reduce remaining barriers to growth and to make growth more inclusive, Africa has a good chance to further lift economies and to reduce social conflicts.*
>
> *Africa´s rising population at working-age would then become a "demographic growth dividend" rather than a social problem with not enough decent jobs."* [37]

FIVE SPECIFIC ISSUES FOR DISCUSSION

Categorising the continent

1. Africa is a vast region, with 55 countries and diverse levels of development. That said, many issues are common across the continent.

Questions:

a. Is it still useful to group countries into resource-rich and non-resource-rich, or is this distinction inappropriate and/or out of date?

b. Is the division of Africa into North Africa and Sub-Saharan Africa, the two principal regions, useful, or should Africa be increasingly analysed and discussed in terms of different groupings?

c. Are the emerging trade and customs unions across the continent displacing the importance of geographical or regional categorisation?

Growth performance

2. Africa's growth has been strong over the past decade, outpacing the advanced economies. Performance across the continent has, however, been diverse.

Questions:

a. What key factors help explain Africa's heterogeneous growth?

b. Will Africa grow more quickly than developing Asia over the next decade?

c. Will Africa's growth prove sustainable in the medium to long term?

Commodities and FDI as growth drivers

3. The commodity boom has helped Africa since the early 2000s, and foreign direct investment (FDI) has also grown strongly.

Questions:

a. Are economies as reliant on commodities now as they were at the start of the commodity boom?

b. How quickly are economies diversifying beyond raw materials into manufacturing and services?

c. FDI projects are diversifying beyond resource extraction activities. Is this likely to continue, or will resource extraction remain dominant?

Overcoming the 'resource curse'

4. The 'resource curse' has traditionally hampered a number of resource-rich economies and regions as they seek to develop and diversify.

Questions:

a. To what extent are countries avoiding the 'consume-it-today' temptation and investing revenues from their natural resources?

b. Is domestic fiscal policy and management smoothing spending to cope with potentially weaker commodity prices and/or volumes?

c. Are countries avoiding high export revenues feeding into high real incomes to avoid damaging cost-competitiveness of other activities, i.e. the so-called 'Dutch disease'?

d. To what extent is structural transformation a priority for countries that could potentially suffer from the 'resource curse'?

Institutions and competitiveness

5. African institutions are improving, across a broad range. Africa scores quite well on many fundamentals, not far behind other emerging economies.

Questions:

a. Is the improvement in Africa's institutions being felt widely across countries and economies?

b. Which countries are making particularly good progress, and in which areas?

c. Where ought the focus to be on improving competitiveness over the coming years?

END NOTES

1 United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects.
2 The continent covers 30 million sq. km.
3 Major native languages include: Arabic; Berber; Swahili; Hausa; Amharic; and Somali. European languages are also widely spoken, including: English; French; Portuguese; and Spanish.
4 IMF. (2013). *World Economic Outlook.* Share of world GDP based on PPP.
5 Collier, P. (2012). *Managing Natural Resources to Ensure Prosperity in Africa.*
6 UNEP. (2013). *Africa Environmental Outlook.* p.17.
7 UNEP. (2013). *Africa Environmental Outlook.* p.22.
8 IMF. (2013). *World Economic Outlook.* GDP based on PPP.
9 Based on PPP.
10 OECD. (2013). *African Economic Outlook.*
11 IMF. (2013). *World Economic Outlook.* GDP based on PPP.
12 World Bank Development Indicators. (2013). Real GDP per capita figures from 2012, in constant 2005 US$.
13 Jerven, M. (2013). We have no idea if Africa is rising. *ForeignPolicy.com.*
14 Jerven, M. (2012). Lies, damn lies and GDP. *The Guardian.*
15 Brock, J. (2013). Nigeria GDP rebasing likely delayed until 2014. *Reuters.com.*
16 Jerven, M. (2013). We have no idea if Africa is rising. *ForeignPolicy.com.* p.2. (Morten Jerven has published widely on African economic development, and particularly on the patterns of economic growth and on economic development statistics.)
17 To 2012.
18 The advanced economies group, as defined by the IMF, includes thirty five developed economies. See IMF categorisations for full listing.
19 UNCTAD FDI definition: 'The forms of investment categorised as FDI include: equity capital, the re-investment of earnings, and the provision of long-term and short-term intra-company loans (between parent and affiliate enterprises).'
20 OECD *African Economic Outlook* (2013). This publication takes the 'resource-rich' countries as being: Algeria, Angola, Botswana, Cameroon, Chad, Congo Republic, DRC, Ivory Coast, Egypt, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Libya, Mauritania, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan and Zambia.
21 Taken to be those that are not classed by the OECD as resource-rich.
22 UNCTAD. (2012). *World Investment Report.* p.41.
23 In this section, 'resource-rich' countries are taken to be those listed as such in all three of the following reports: OECD (2013); *African Economic Outlook 2013,* p.61; IMF. (2012), *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries,* pp. 47-49; and World Bank. (2012). *Africa's Pulse,* p.14. 'Resource-poor' countries are taken to be those both that are listed in the "comparison group" of "countries that are not resource-rich" on page 47 of the IMF report, and also not listed in either the OECD or World Bank reports' as "resource-rich".
24 North, D. (1997). *Frontiers of the New Institutional Economics.* p.6.
25 The World Economic Forum. (2013). *The Global Competitiveness Report.*
26 The World Economic Forum. (2013). *The Global Competitiveness Report.* p.4.
27 The WEF classifies most African countries as factor-driven economies.
28 Herderschee et al. (2012). *Resilience of an African Giant. World Bank.*
29 OECD. (2012). *OECD Economic Survey: Australia.*
30 Jacks, D.S. (2013). *From Boom to Bust: A Typology of Real Commodity Prices in the Long Run.*
31 Jacks, D.S. (2013). *From Boom to Bust: A Typology of Real Commodity Prices in the Long Run.*
32 For the detailed reasoning, see Llewellyn, J. , Hansen, B., and Llewellyn, P. (2013). *The Changing Face of the Oil Industry.*
33 OECD. (2013). *African Economic Outlook.*
34 OECD. (2013). *African Economic Outlook.*
35 OECD. (2013). *African Economic Outlook.*
36 OECD. (2013). *African Economic Outlook.*
37 *OECD. (2012). African Economic Outlook. pp.34-35.*
** *The ideal deflator would be a unit value index for exports. Unfortunately such a deflator seems not to be available beyond 2005 for Africa as a whole. However, the GDP deflator for Africa, and which is available up to 2011, has behaved similarly to the export unit value index over the years for which they overlap. Accordingly, the GDP deflator has been used for the time period.*

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