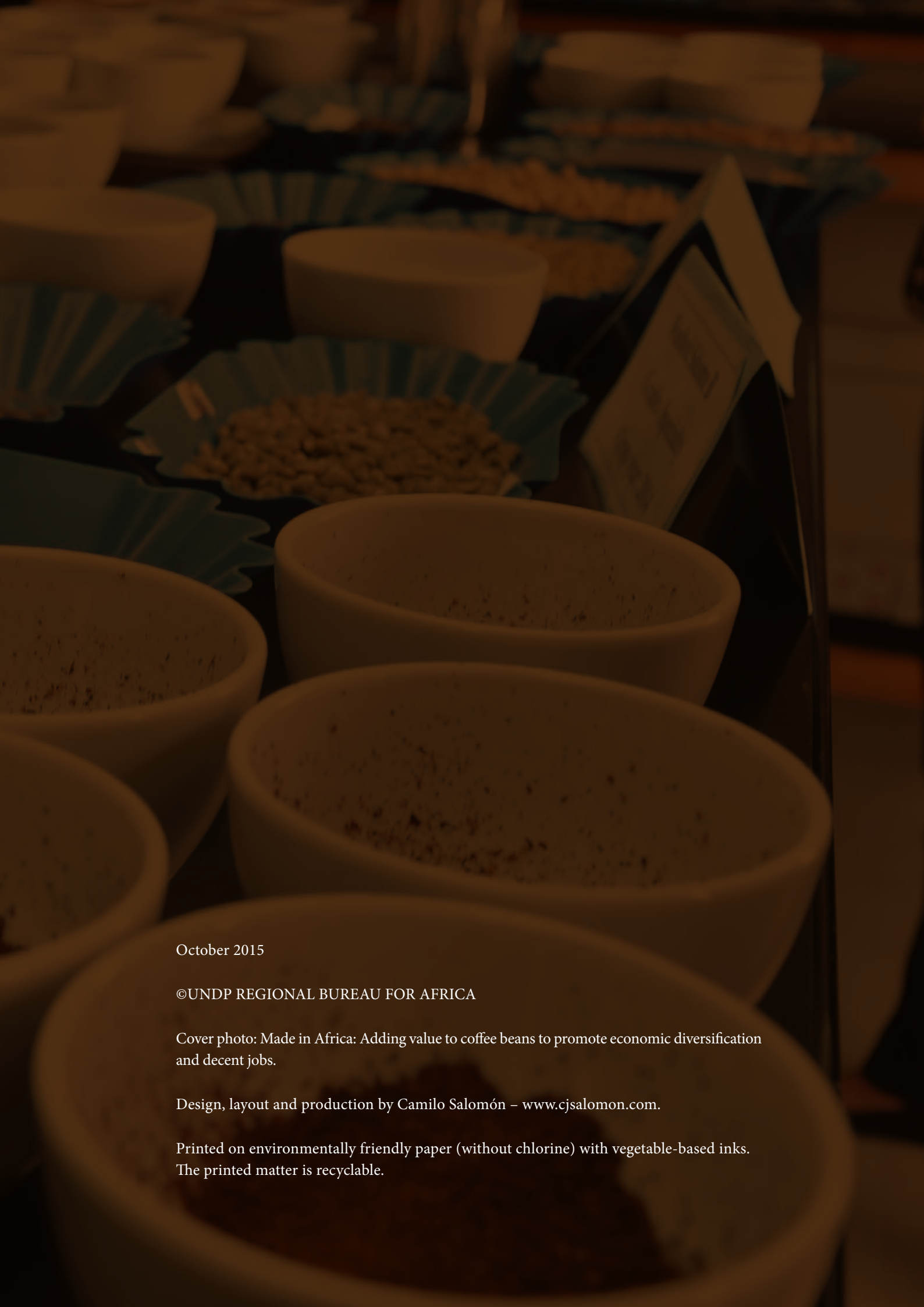


Primary Commodity Booms and Busts

Emerging Lessons from sub-Saharan Africa





October 2015

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Cover photo: Made in Africa: Adding value to coffee beans to promote economic diversification and decent jobs.

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Acronyms & Abbreviations

ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
BRICS	Brazil, Russia, India, China and South Africa
CBN	Central Bank of Nigeria
CBO	Community-based organization
EITI	Extractive Industry Transparency Initiative
FDI	Foreign direct investment
FOCAC	Forum of Africa China Cooperation
GDP	Gross domestic product
GVA	Gross value added
HDI	Human Development Index
IDC	Industrial Development Corporation
IMF	International Monetary Fund
MTEF	Medium Term Expenditure Framework
MVA	Manufacturing value added
NBS	National Bureau of Statistics
NGO	Non-governmental organization
NNPC	Nigerian National Petroleum Corporation
OPEC	Organization of Petroleum Exporting Countries
RBA	Regional Bureau for Africa
RBA	UNDP Regional Bureau for Africa
SARB	South Africa Reserve Bank
SNIM	Société nationale industrielle et minière de Mauritanie
SSA	Sub-Saharan Africa
TICAD	Tokyo International Conference on Africa's Development
UNCTAD	United Nation Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

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A worker transports a sack of coffee beans in Ethiopia. Photo credit: UNDP.

Foreword

Foreword

Many African economies with abundant natural resources suffer from slow growth and widespread poverty. Dependence on commodities often fails to generate development because volatile international prices can lead to macroeconomic and political instability. The concentration of wealth in oil and minerals can encourage rent-seeking and corruption. Mobilizing resources for primary commodities can slow down higher-productivity manufacturing so that oil or minerals come to dominate national production (e.g. mining accounts for 65% of GDP in the Republic of the Congo). However, with the right policies in place, countries can achieve rapid growth, macroeconomic stability and accelerated reduction in poverty and inequality in commodity-dependent countries. In Botswana, for example, per capita income increased by 4.5 percent per year from 1990 to 2014, life expectancy significantly increased, under-five mortality declined, and access to education improved. This report aims to inform countries that depend on primary commodities on how to maximize the development impact of their policy regimes.

The report argues that commodity-dependent economies in Africa should focus on three major challenges. First, governments should save sufficiently during commodity booms to support consumption and investment once commodity prices decrease. Limiting spending when the coffers are full is difficult, given poor countries' enormous development needs and the near-impossibility of predicting commodity prices accurately. Nevertheless, many countries have clearly saved far too little, and even borrowed on the basis of temporarily high revenues, leading to debt crises and deep recessions once prices collapse. Governments can use fiscal rules or sovereign wealth funds to help save revenues from booms. Restructuring of mining companies contracts during commodity price booms, through profit-sharing agreements or linking taxes with price changes, is also critical. Moreover, the risks inherent in volatile commodity markets can be shared with extractive industry firms or hedged in forward or futures markets.

Second, involving local firms can help harness oil and mineral wealth for development. Local content rules can promote the participation of domestic firms in extractive industries, but overly ambitious requirements should be avoided that can lead to excessive pricing or poor quality. Local content policies should aim at promoting backward and forward linkages in the domestic economy. Using the primary commodity sector, including extractive industries, to achieve meaningful economic diversification and structural transformation is key. Well-designed incentives and targeted infrastructure investments can boost domestic manufacturing. By the same token, transport infrastructure used to carry oil and minerals to the sea can be built and regulated in ways that ensure access by local firms.

Finally, strong public institutions are essential to ensure that commodity resources are used wisely. It is possible to limit corruption by having outside firms or local non-governmental organizations examine the accounts of public and private firms involved in commodity extraction, and by cooperating with international initiatives that aim to promote transparency. A temporary glut of resources should not be allowed to degrade standards for evaluating public sector investment projects, or encourage inefficient consumption subsidies that support the wealthier while providing little assistance to the poor. At the same time, effective procedures should be in place to ensure that necessary cuts in expenditures fall on lower-priority projects.



Iron ore train in Liberia, outside Ganta Zorgowee. Photo credit: jbdodane.

UNDP is committed to work with African governments and their stakeholders to support the implementation of these priority policy actions. UNDP, due to its large network and neutrality, can promote technical support and the exchange of knowledge on how to implement sound fiscal rules, local content policies, economic diversification and strong public institutions. All avenues must be explored to meet the challenges of volatile primary commodities and achieve economic transformation and human development.

Handwritten signature of Abdoulaye Mar Dieye in black ink.

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This report is a contribution of UNDP Regional Bureau for Africa (RBA) to addressing the recurring primary commodity booms and bursts that have been threatening economic growth, macroeconomic management and human development in many African countries. The report, using case studies from ten countries, seeks to provide home-grown solutions to this perennial problem. It was prepared under the strategic guidance of the UNDP Regional Director for Africa, Abdoulaye Mar Dieye. The leadership support from the Deputy Director, Ruby Sandhu-Rojon, is deeply appreciated.

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Executive Summary

Africa has yet to overcome the challenges of dependence on primary commodities, which account for more than 60 percent of merchandise exports in 28 of the 38 African countries with recent data. Little progress has been made in producing more sophisticated goods: an index of export diversification for sub-Saharan Africa (SSA) increased by around 1 percent from 1995 to 2013, and the share of Africa's industrial sector in GDP has fallen since 2000 from 14 to 10 percent. Commodity prices boomed from 2000 to 2011, fuelling a 2.9 percent a year increase in SSA's per capita GDP. However, the recent fall in commodity prices has once again imposed considerable economic hardship, re-igniting concerns over the implications of dependence on commodity exports for development.

Commodity dependence can impair growth. The concentration of wealth from oil and minerals encourages rent seeking and corruption, and competition for these resources may foment civil conflict. Commodity price volatility can drive booms and busts in economic activity, increasing transactions costs, because resources have to move between sectors, and disrupting investment programmes if projects are abandoned because funds dry up. Volatility also can reduce long-term growth prospects, because unemployed workers lose opportunities for gaining experience and often lack the resources to invest in their education, while high levels of uncertainty can reduce capital investment. Sustained high levels of oil and minerals prices also tend to reduce incentives for the production of manufactures, which often provide opportunities for increasing returns and learning that are not available in the production of primary commodities.

Commodity exporters have faced severe challenges in managing earlier commodity price cycles. In the 1970s, many African governments ramped up investment spending, borrowed heavily on the anticipation of continuing high prices, and increased current expenditures in ways that were difficult to reverse, which helped to generate the debt crises of the 1980s. Many SSA commodity exporters maintained boom spending as prices declined in the 1980s and failed to reduce consumption during the 1998 price drop, which helped drive ensuing economic crises. Nevertheless, some African countries have managed commodity revenues well during booms, for example Cameroon in the 1970s and Botswana over a long period.

The global commodity price boom that began in 2001 was driven by increased demand for oil and industrial metals, due to rising incomes and massive infrastructure investments in rapidly-growing emerging markets. Prices turned down by 2012 as global demand softened, while supply kept rising until the last year or two (depending on the commodity). Sharp declines in the global prices of oil, iron, and copper reduced Bloomberg's Commodity Price Index to an all-time low early in 2015. All major commodity categories were affected, with the notable exception of cocoa beans.

The report provides detailed analyses of the impact of the commodity price cycle on ten commodity-dependent African economies. The countries were selected based on major commodity exports, the severity of the impact, and language and regional considerations. Commodity export prices fell in all ten case study countries beginning in 2012. Some countries were able to boost export

volumes, and many benefitted from lower prices on commodity imports. However, current account balances deteriorated in all case study countries except Mauritania, South Africa and Uganda, and the purchasing power of exports (exports in nominal terms divided by the import price index) fell in half the countries.

Policy adjustments were critical in helping the case study countries limit the impact of lower commodity prices on their economies. Nominal exchange rates with the US dollar depreciated strongly from January 2014 to mid-2015 in most of the countries. Inflation rates rose compared to earlier in this decade, but performance has been more mixed over the past year. Most of the countries, with the exception of high-inflation Ghana, are expected to experience only a slight rise or decline in inflation for 2015. Currency depreciation is playing an important role in increasing inflationary pressures, and some countries have tightened monetary policies to limit price increases.

Fiscal balances in the majority of the case study countries have deteriorated since 2011, although there is considerable variability in the more recent data. Governments are boosting tax collections through higher tax rates (particularly on luxury goods), borrowing in international markets, delaying infrastructure investments, and cutting current expenditures to deal with the drop in commodity revenues. The deterioration in fiscal positions has encouraged efforts to improve the efficiency of public expenditures.

Governments are also taking steps to diversify production by encouraging greater foreign direct investment (FDI), providing some trade protection for processing industries, negotiating trade agreements to encourage export production, and providing incentives for firms involved in industry and agriculture. Many countries also continue to invest in the production of primary commodities.

An important lesson from the past few decades is that resource wealth can support rapid development, given the right policies. Governments can reduce the impact of volatile commodity prices by sharing the risks with extractive industry firms and by hedging these risks in forward or future markets. Fiscal, exchange rate and monetary policies can be adjusted to increase savings while commodity prices are high, to generate the resources to support consumption when commodity prices fall. Sovereign wealth funds that are designed for both stabilization and long-term savings have proven to be a useful device to capture commodities revenues during booms and have reversed the resource-curse syndrome. Governments can support domestic production of goods and services through well-designed local content requirements and targeting infrastructure services to local firms. International programmes such as the Extractive Industry Transparency Initiative (EITI) and local non-governmental organizations (NGOs) can help improve the transparency of oil and mining firms operating in the country. Finally, governments can ease limits on firms' ability to switch resources between sectors to reduce the cost of adjusting to volatile prices.

The United Nations Development Programme's (UNDP) support for commodity-dependent economies could focus on four areas. UNDP could assist these economies to improve intergovernmental cooperation in order to boost intra-African and intercontinental trade. Technical assistance could be provided to strengthen macroeconomic management, for example, by improving data management and modelling capacity in government agencies. UNDP could help strengthen human resource development by assisting in the design of manpower strategies and improving coordination among training providers. Finally, UNDP could help African resource exporters link into global value chains by supporting finance for small-scale enterprises and the design and implementation of viable business advisory and trade policies.



A platinum mine and processing plant at Rustenberg in South Africa. Photo credit: BBC World Service.

Chapter I

Introduction

Introduction

Many African economies with abundant natural resources have failed to achieve sustained, high rates of growth over the long term. Most African governments are yet to learn from past primary commodity prices booms and bursts to decouple their fiscal and monetary policy management from heavy dependence on primary commodities. Understanding the policies and institutions required to generate development in economies dependent on primary commodities is a critical issue for African governments. The basic goal of this report is to examine the impact of commodity dependence on growth in Africa and outline the measures required to ensure that resource wealth can be translated into progress in human welfare.

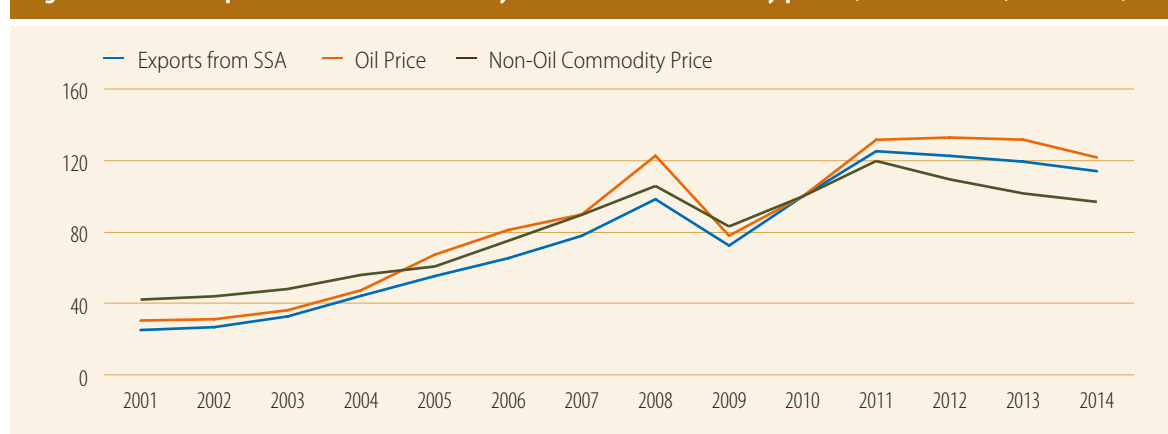
The long boom in primary commodity prices from 2001 to 2011 (except during the 2008-2009 global financial crisis) generated large increases in SSA's export revenues (figure 1). The boom also fuelled a 2.9 percent a year increase in SSA's per capita GDP from 2000-2010, after the long decline in per capita GDP over the previous two decades (figure 2). For example, Nigeria's per capita GDP fell by 2 percent a year from 1980-2000, but rose by 3 percent a year from 2000-2010, and the Republic of the Congo's per capita GDP fell by 5.3 percent a year from 1980-2000, but then increased by 0.7 percent a year from 2000-2010.

Most African governments are yet to learn from past primary commodity prices booms and busts; their fiscal and monetary policy management still depends on vicissitudes of primary commodities.

Buoyant commodity prices and improved economic policies enabled SSA countries to weather the global economic crisis of 2008/2009 better than past crises (World Bank 2011). As a result of this progress, four countries (Cape Verde, Ethiopia, Ghana and Malawi) are expected to achieve most of the Millennium Development Goals by the end of 2015, or soon thereafter.

Sustained growth in the first decade of this century, however, has not achieved concomitant improvements in development in many countries. Unemployment rates remain high, particularly

Figure 1: Africa's export revenues are driven by international commodity prices (index numbers, 2010=100)



Source: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>
Note: Index numbers, 2010=100.

among the young. It is estimated that 389 million people in SSA live on incomes of less than US\$1.90 a day (World Bank 2015e), and the United Nation's Human Development Index remains low in most African countries (UNDP 2014). However, UNDP's Human Development Index reveals that since 2000, 19 of the 30 countries with the fastest improvements in income, health and education are African.¹

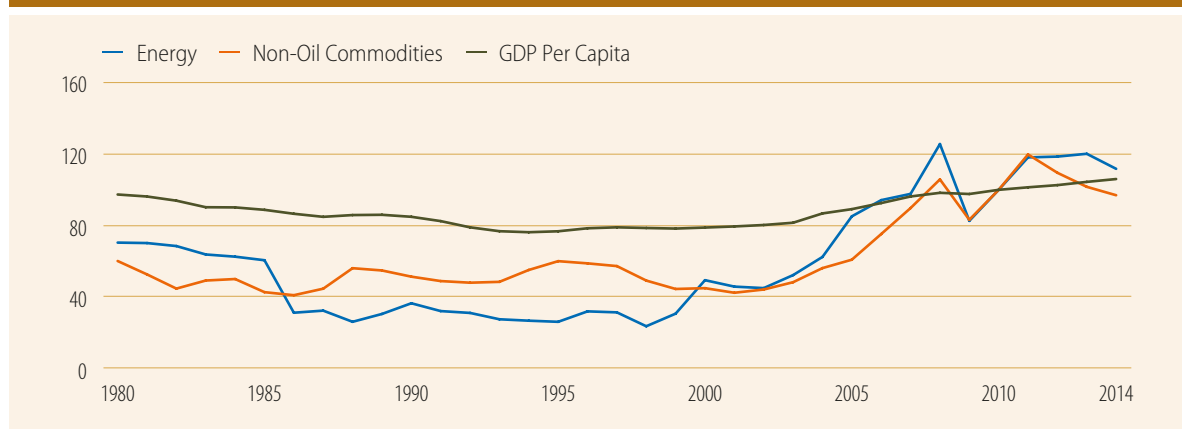
Despite the benefits of the long commodity boom, African economies' dependence on primary commodities has posed challenges for short-term macroeconomic management and for long-term growth. The fall in commodity prices over the past few years has imposed considerable economic hardship, once again raising serious concerns over the implications of dependence on commodity exports for development. Per capita growth remained positive during the first years of the commodity price decline (2011-2014), but at only a little more than half the rate during the 2000s.

This report aims to draw relevant lessons from the past and recent experiences on primary commodity booms and busts to inform decision making in Africa. To this end, a case study

approach is used. Three commodity case studies have been undertaken: oil (Angola, Nigeria and Republic of the Congo); iron ore (Mauritania, South Africa and Ghana); and coffee (Ethiopia, Uganda and Burundi). To reflect the major primary commodities in the continent, copper has been added with a country case study focused on Zambia.

The next chapter analyses the degree of commodity dependence in SSA, the implications for growth, and how the right policies can generate development based on natural resource wealth. Chapter 3 considers the causes of the recent commodity price cycle and its impact on commodity-dependent economies in Africa. Chapter 4 presents the country case studies, and Chapter 5 summarizes the policy recommendations and the steps UNDP could take to help commodity-dependent African economies improve their economic management and increase the diversification of production. Chapter 6 concludes.

Figure 2: GDP per capita in SSA has moved with decades-long commodity price cycles, 1980-2014 (index numbers, 2010=100)



Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; and World Bank commodity price outlook; see www.worldbank.org/commodities

¹ Top on the list of these countries are Rwanda, Ethiopia, Angola, Mozambique, Burundi, Zambia, Mali, Tanzania, Niger and Sierra Leone. Rwanda and Ethiopia recorded an annual growth of 3.35 percent since 2000. The ten fastest-growing countries according to the Human Development Index (HDI) are resource-poor countries, except for Angola, Mozambique and Zambia. Computed from the World Development Indicators 2015.



Iron and Steel refinery and a farmland in South Africa. Photo credit: John Hogg/World Bank.

Chapter II

Lessons from the past commodity booms and busts in Africa

Lessons from the past commodity booms and busts in Africa

African economies remain heavily dependent on primary commodity exports.

2.1 Africa's heavy dependence on primary commodities

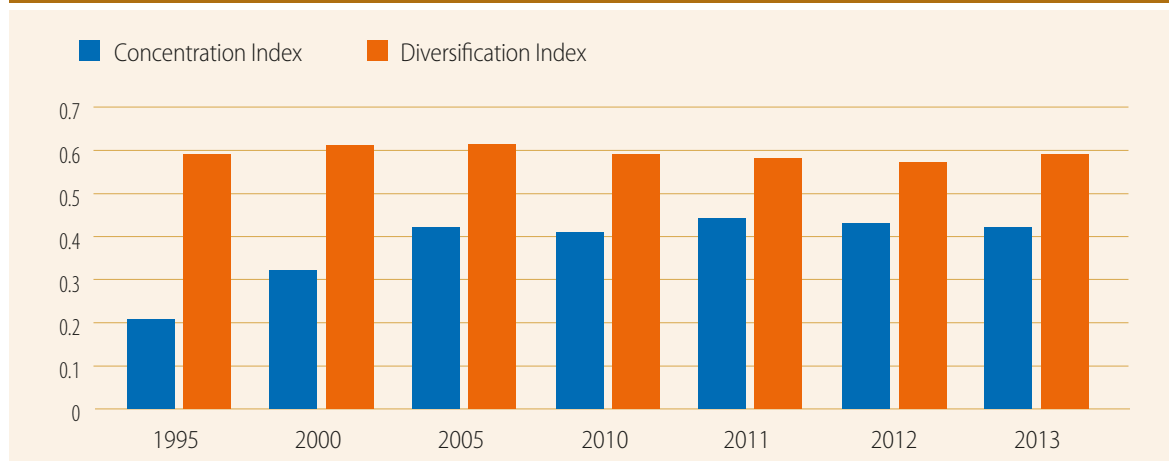
In the late 1990s, two primary commodities accounted for more than half of export earnings in 39 of 47 African economies (Morrissey and Filatotchev 2000). In addition, an export diversification index for SSA increased only marginally from 1995 to 2013 (excluding South Africa, where the index fell) while an export concentration index doubled, on average (figure 3; see Annex Table A6 for country data). By contrast, in other regions of the world, export baskets witnessed improved diversification over the same period (see Annex Table A4). Every African economy with data, except South Africa, has a higher export concentration index than the average for developing countries (excluding China),

and 19 of the 49 African economies with data have an export concentration index that exceeds the average for developing countries (excluding China) by 30 percentage points (see Annex Table A1).

Primary commodities dominate African exports. For 28 of the 38 African countries with recent data, primary commodities make up more than 60 percent of merchandise exports (figure 4 and Table A3). In addition, in most of the economies that are particularly dependent on primary commodities, the top two or three commodity exports account for more than 80 percent of merchandise exports (see Annex Table A2). The share of primary commodities in exports was a health emergency of international concern. Also, in September 2014, the United Nations Security Council declared the crisis a “threat to international peace and security” and unanimously called for a coordinated approach in dealing with the outbreak.

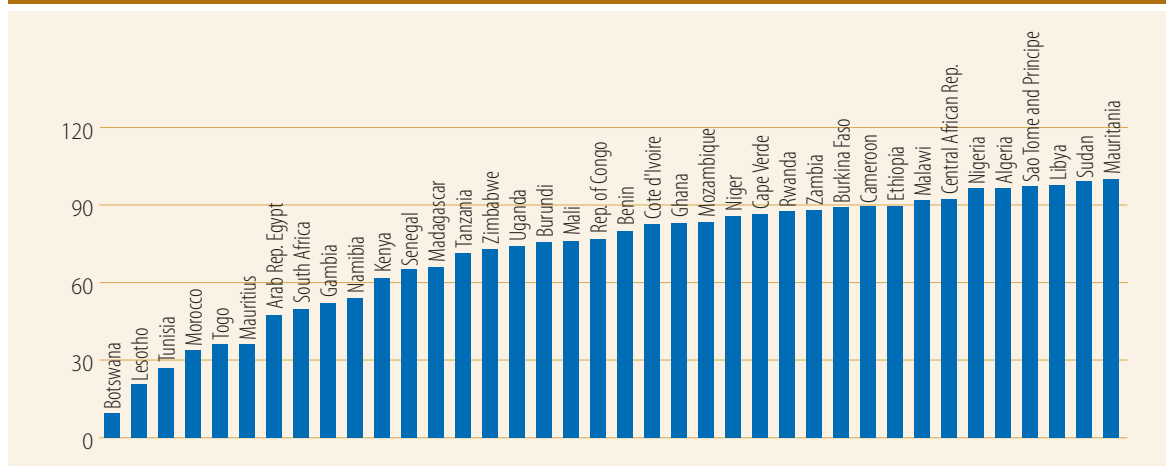
It has been argued in the literature (e.g. Deaton 1999) that many Asian countries diversified their export baskets and moved into manufactures through deliberate policies to promote long-term

Figure 3: Production in African economies has not become more diversified since 1995



Source: United Nation Conference on Trade and Development (UNCTAD 2015).

Figure 4: Most African economies are heavily dependent on primary commodity exports
(% share of primary commodities in exports; latest available year)



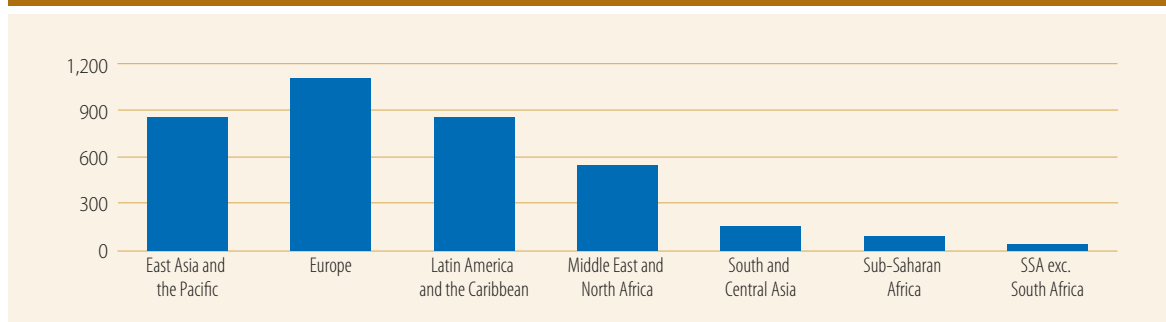
Source: World Bank data; see <http://data.worldbank.org/data-catalog/world-development-indicators>

economic transformation and the development of supply capacity, achieved through high saving and investment rates. These efforts were also supported by public investment in infrastructure and in education, as well as foreign investment and a mix of trade liberalization and trade promotion measures (including subsidies). By contrast, according to the World Trade Organization (WTO) (1997) and United Nations Conference on Trade and Development (UNCTAD 1997, 1999), most SSA countries have few large domestic firms, little experience with global competition, and in many cases, widespread barriers to domestic competition, and are therefore rarely able to increase MVA.

Another way to look at the sharp divergence in commodity dependence between Africa and many other developing countries is in terms of the value added in manufacturing per person. MVA per capita in Africa was the lowest among

geographic regions in 2011 (figure 5 and Annex Table A6). Excluding South Africa, MVA per capita in SSA was only \$45, or less than a third of South and Central Asia (the same ratio holds if India is excluded). In addition, Africa's industrial sector has declined in importance over the past 25 years: on average, manufacturing in Africa's low-income countries is smaller as a percentage of GDP than it was in 1985 (Page 2012). The 2014 African Progress Panel Report shows that Africa is less developed today than it was in 2000. The share of manufacturing value added (MVA) in GDP has fallen from 14 to 10 percent since 2000. The share of manufactured exports also fell from 43 percent in 2000 to 39 percent in 2008 (APP 2014). The share of industrial value added to GDP also fell by 5.2 percent between 2000 and 2014.² The United Nations Industrial Development Organization/United Nations Conference on Trade and Development (UNIDO/UNCTAD) 2011 report

Figure 5: Manufacturing value added per capita is extremely low in SSA, 2011
(at constant 2005 prices)



Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912 and UNIDO online

Table 1: Infrastructures and development indicators in the epicentre countries

Variables	ALL	TOT	GDEBT	CAB	CAB (% of GDP)	RES Change	RES Change	EXDEBTT	EX-DEBT
ALL	1.000								
GROWTH	-0.464	1.000							
TOT	0.036	0.684	1.000						
GDEBT	-0.601	0.114	0.035	1.000					
CAB	-0.634	0.805	0.630	0.299	1.000				
CAB (% of GDP)	-0.631	0.788	0.605	0.422	0.976	1.000			
RES Change	-0.125	0.505	0.527	0.078	0.742	0.763	1.000		
EXDEBTT	0.748	-0.632	-0.302	-0.104	-0.856	-0.758	-0.462	1.000	
EXDEBT	-0.692	0.202	0.000	0.976	0.370	0.485	0.121	-0.222	1.000

Note: Definition of labels: All – Weighted Price Index for all commodities; Growth – Real GDP growth rate; TOT – Terms of trade (% change); GDEBT – General government gross debt (% of GDP); CAB – Current account balance (US\$ billion); RES Change – Change in reserves (US\$ billion); EXDEBTT – External debt, total (US\$ billion); EXDEBT – External debt, total (% of GDP).

concludes that labour-intensive manufacturing continues to play a very limited and declining role on the continent.

The massive swings in global commodity prices have introduced considerable volatility into African economies. Deaton (1999), Kose and Riezman (2001) and UNDP (2014) identify trade shocks—upward and downward swings in commodity export prices—as largely responsible for volatility in output and income, exchange rate instability, and shifts in current account balances, fiscal balances and external reserves in Africa. Macroeconomic variables, including growth, the terms of trade, current account balances, reserves, and debt levels tend to be highly correlated with commodity prices (table 1). It is clear that many other forces determine the evolution of these macroeconomic aggregates, and observing a correlation does not prove a causal relationship. Nevertheless, these data do provide some indication of the close movements between commodity prices and macroeconomic developments in the region.

2.2 Heavy commodity dependence can impair growth

Countries endowed with substantial natural resources may grow less rapidly than those without (see Humphreys, Sachs and Stiglitz 2007), or at least no advantage in growth, on average, can be observed from the possession of natural resources. Figure 6 shows a slightly negative relationship between the share of fuels and minerals in exports and growth.³ A negative correlation of 21.8 percent is observed between growth and commodity dependence across 51 countries. Given that concentration in primary commodities, particularly minerals and fuel, is also often associated with a highly unequal distribution of income (Simkins 1998), social indicators such as disease prevalence, mortality rates and access to education also tend to be poor in commodity-dependent economies. Despite gains in average income during the 2000-2010 price boom, over 50 percent of the population of countries dependent on extractive resources lives on less than \$2 a day (Kaufmann 2012).

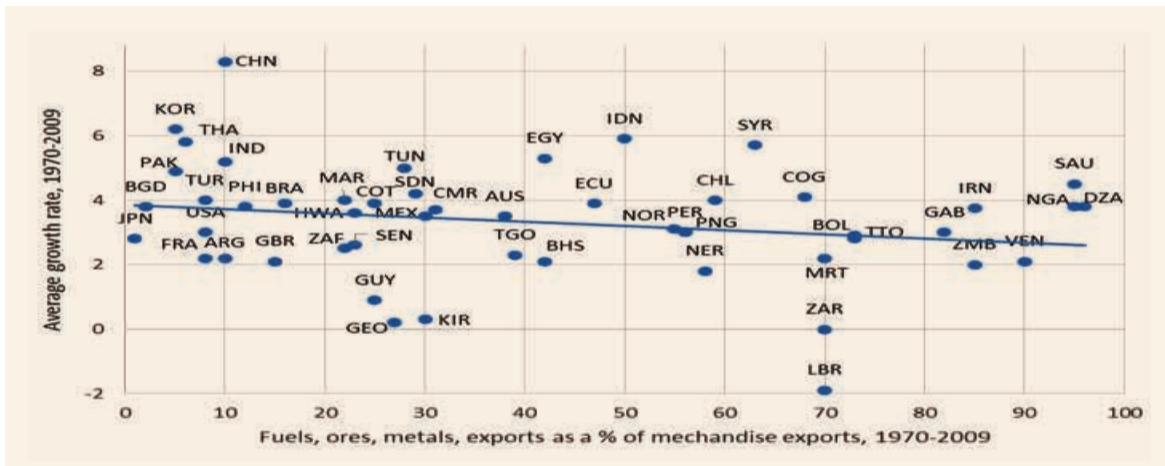
There are several reasons for which countries may not be able to transform mineral wealth into development.⁴ The first concerns the impact on institutions. Concentration of wealth from oil and minerals can encourage rent seeking (see Mauro 1995; Leite and Weidmann 1999)

² Computed from the World Development Indicators 2015.

³ Sachs and Warner (1995), Kaldor, Karl and Said (2007) and Sala-i-Martin and Subramanian (2003) find a negative relationship between reliance on natural resource exports and growth.

⁴ A description of the mechanisms through which the natural resources can affect economic growth can be seen in Auty (2001), Humphreys, Sachs and Stiglitz (2007), Frankel (2012a) and Cox and Harvie (2010).

Figure 6: Growth tends to be lower in commodity-dependent countries



Source: Frankel (2012a).

Note: ARG = Argentina; AUS = Australia; BGD = Bangladesh; BHS = Bahamas; BOL = Bolivia; BRA = Brazil; CHL = Chile; CHN = China; CMR = Camerouns; COG = Republic of the Congo; COT = Cote d'Ivoire; DZA = Algeria; ECU = Ecuador; EGY = Egypt; FRA = France; GUY = Guyana; GBR = Great Britain; IDN = Indonesia; IND = India; IRN = Iran; JPN = Japan; KIR = Kiribati; KOR = Republic of Korea; LBR = Liberia; MAR = Morocco; MEX = Mexico; MRT = Mauritania; NER = Niger; NGA = Nigeria; NOR = Norway; PAK = Pakistan; PER = Peru; PHI = Philippines; PNG = Papua New Guinea; SAU = Saudi Arabia; SEN = Senegal; SDN = Sudan; SYR = Syria; THA = Thailand; TGO = Togo; TTO = Trinidad and Tobago; TUN = Tunisia; TUR = Turkey; USA = United States; VEN = Venezuela; ZAF = South Africa; ZAR = Democratic Republic of the Congo; ZMB = Zimbabwe.

and may foment civil conflict in competition for resources (see Collier and Hoeffler 2005; Cali 2014). Corruption in the context of volatile commodity revenues could result in the benefits of booms being appropriated by insiders, which may be reflected in illicit capital flight, or may be wasted in politically motivated but inefficient expenditures including “white elephant” projects, and are thus not available to compensate for the losses in income during commodity price busts.⁵

Second, the volatility of commodity prices may impede development by increasing transactions costs involved in frequent and rapid shifts in labour and capital. The failure to save adequately during booms can lead to excessive levels of debt and large fiscal deficits during price declines, resulting in economic crises and recessions that are both painful in the short term and can reduce growth in the long term (e.g. through lost investments in human capital and lower long-term investment levels due to increased uncertainty).⁶ Many earlier researchers (Deaton 1999; Page and Hewitt 2001) claimed that African governments were unable to allocate the proceeds from commodities efficiently across time periods

Commodity exporters faced difficult challenges in managing earlier commodity price cycles.

or to establish the macroeconomic environment where the private sector could do so. The efficiency of government expenditures also may decline if investment projects, begun during periods of rising revenues (and increased access to borrowing), must be abandoned due to lack of financing when revenues fall.

Third, sustained high levels of oil and minerals prices tend to increase the price of locally produced non-tradeables relative to locally produced tradeables, typically manufacturing, which diverts production from the latter to the former (the “Dutch disease”).⁷ Stijns (2003) finds that a one percent rise in an energy-exporting country’s net energy exports reduces the country’s

⁵ See Leite and Weidmann (1999), Gylfason (2000) and Papyrakis and Gerlach (2004). Arezki and Brückner (2009) find a positive relationship between resource dependence and corruption.

⁶ Blattman, Hwang and Williamson (2007), Hausmann and Rigobon (2003), Poelhekke and van der Ploeg (2007) and El-Anshasy, Mohaddes and Nugent (2005) relate volatility to slow growth in resource dependence economies.

⁷ See Corden and Neary (1982), Neary and van Wijnbergen (1986) and Krugman (1987).

real manufacturing exports by 8 percent. This reallocation is undesirable if manufacturing shows increasing returns or opportunities for learning that are not available in the production of primary commodities. Minerals production is also often associated with a lack of the forward and backward linkages that can drive broad-based development.

With the exception of Botswana and South Africa, the African countries whose foreign exchange earnings and government revenue depend significantly on commodity export trade have not performed particularly well in terms of managing export earnings from extractive industries or agriculture. A key issue has been the tendency to react to the economic impact of rising commodity prices by increasing expenditures during booms and cutting back during price declines, rather than proactive policies to ensure a sustainable level of expenditures over the commodity price cycle.

Managing commodity revenues to avoid macroeconomic instability during boom and bust cycles is a daunting task. It is difficult to avoid the political pressures to ramp up spending during booms, particularly in poor countries that face enormous needs. Similarly, constraints on spending that might cushion the impact of price declines can be severe due to the lack of domestic or foreign finance and declines in tax revenues. Moreover, commodity prices are difficult, if not impossible, to forecast; Deaton and Miller (1995) conclude that neither structural nor time series models would have helped policymakers during the 1970s to anticipate cycles. Thus, decisions on the appropriate use of revenues when prices rise are subject to extreme uncertainty. Nevertheless, country experience is varied: some commodity-dependent African economies have achieved considerable success in insulating their economies from commodity price shocks, while many have not.

The commodity price booms during the 1970s illustrate the difficulties that African economies faced. Many governments ramped up investment spending and borrowed heavily on the anticipation of continuing high prices, which helped to generate the debt crises of the 1980s (Kreuger 1987; Greene 1989). Many of these

projects were of low quality because, for example, they were prepared hastily or represented responses to political pressures, or simply had to be abandoned when funding dried so that large amounts of expenditures were wasted.

In addition, some governments significantly increased current expenditures during the boom in ways that were difficult to reverse when commodity prices fell.⁸ Rajaram (1985) concludes that SSA commodity exporters tended to maintain boom spending even as commodity prices (and thus export revenues and government earnings) turned down, thus boosting budget deficits, monetary expansion, and inflation. Analysing a later episode, World Bank (2000) concludes that oil exporting countries saved around half the 5 percent rise in real incomes during the boom in oil prices from 1996-1997, but consumption failed to decline during the 1998 drop in prices, leading to unsustainable levels of debt and imposing sharp cutbacks in spending.

Cuddington (1989) emphasizes the diversity of performance in handling commodity price booms of the 1970s. In Cameroon, the rise in spending during the coffee price boom in 1976-1977 and the beginning of oil production in 1979-1980 was modest, government savings increased, external borrowing was minimal, and real exchange rate appreciation was limited. While GDP decelerated with the commodity price falls of the early 1980s, growth remained at 7.3 percent per year from 1981-1983. In Kenya and Nigeria, by contrast, the increase in revenues during the boom (from taxes on coffee farmers in Kenya and government-owned oil revenues in the Nigeria) was largely spent. In Kenya, the result was a breakdown in expenditure controls and the economic crisis of the early 1980s. In Nigeria, the rise in expenditures quickly generated bottlenecks at the port and internal transport infrastructure, inflation increased, and the government budget fell into deficit. The decline in foreign exchange reserves in 1981 was met by external borrowing. Nigeria's GDP growth had increased by 4 percent a year from 1975-1980, but then fell by 3 percent a year from 1980-1985.

⁸ See Bevan, Collier and Gunning (1987, 1989 and 1991).



Traders bid on coffee on a computerized trading floor in Ethiopia. Photo credit: UNDP

Chapter III

Managing the recent wave of commodity price cycles: severity, impact, strategies and policy measures

Managing the recent wave of commodity price cycles: severity, impact, strategies and policy measures

Commodity prices boomed following 2000, but then collapsed.

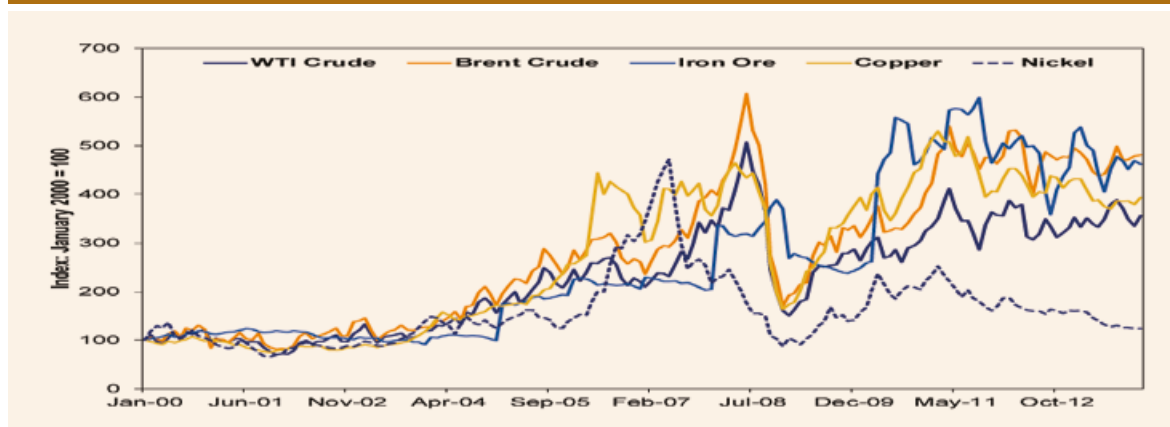
3.1 Severity

The global commodity price boom that began in 2001 was fuelled in large part by rising demand in China, Brazil, India and a few other emerging markets (UNDP 2014). Massive investment in infrastructure, including the building of dams, mega cities, extensive road and rail networks, bridges and power facilities, drove demand for iron and steel, copper, and other industrial metals to record highs. Similarly, growing

prosperity and developmental prospects boosted the demand for oil. While commodity prices declined, or increased only slowly, during the global financial crisis of 2008-2009, prices rebounded rather quickly thereafter and stayed high till 2011-2012 (depending on the commodity), when the current downward slide started (figure 7).

This long boom came to an end due to slowing demand and rapidly increasing supply. By 2012, growth rates in China, other Asian economies, as well as some other advanced economies began to decline, and growth in the demand for iron and steel, gold and other industrial metals slowed. China's economic expansion slowed to 7.8 percent year-on-year in 2012, the lowest since 1999, and remained at an average of 7.7 percent between 2012 and 2014.⁹

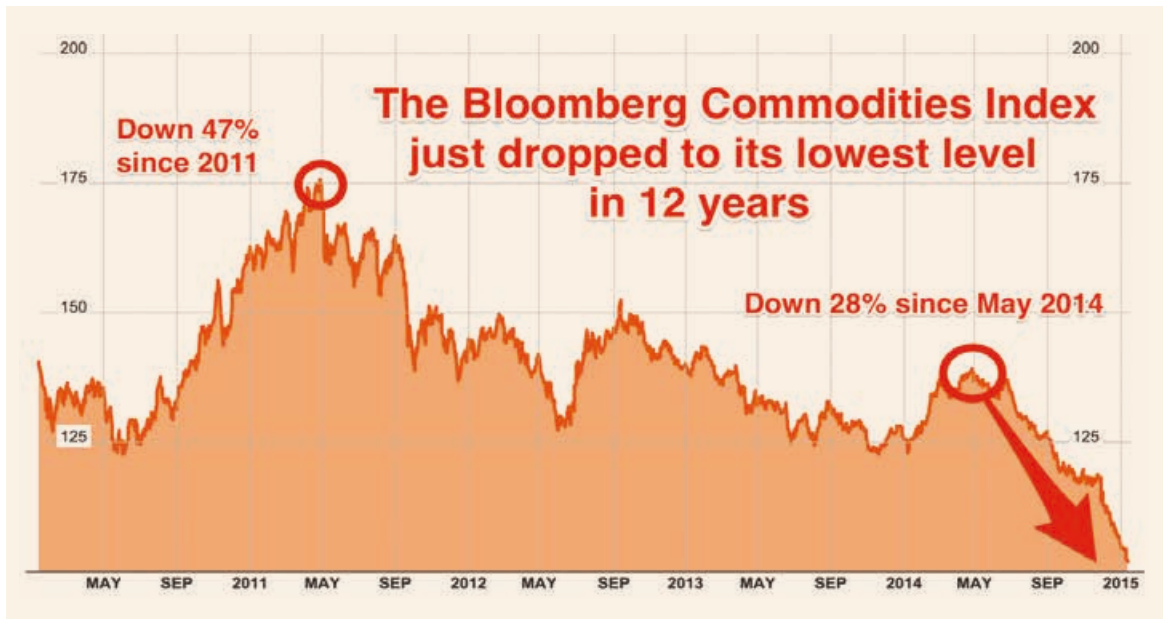
Figure 7: Global commodity prices have been highly volatile, January 2000 - October 2012



Source: About Those Falling Commodity Prices; see www.fisherinvestments.com/market-insights/education/hot-topics/about-those-falling-commodity-prices

⁹ See World Bank (2015), <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

Figure 8: Global commodity prices have declined sharply, February 2013 - February 2015



Source: Business Insider. 2015.

At the same time, supplies of these commodities continued to rise. Although recent supply data for all the commodities were not available at the time of compiling this report, the world's largest metal-producing firms indicate that they were not scaling down production—many still expected that demand will continue to grow. Large firms in Australia and other advanced economies, unlike countries in Africa that rely rather heavily on foreign investment in the mining industries, are already committed to huge expansion programmes. There is a high probability that they will see the investments through, since these firms are normally more focused on the long term and not on periodic price swings, such as the world is currently witnessing. Overall, the supply of these commodities largely overshot demand since late 2012 and early 2013.

Similarly, oil producing firms were generally not reducing output levels, at least until recently. Production in the US shale fields, for instance, is still high, and the Organization of Petroleum Exporting Countries (OPEC) decided not to

reduce production levels in 2014 in order to maintain market share. Furthermore, Libya is coming back online after a period of significant output decline during the recent violence.¹⁰

Supply growth also continued in many agricultural products, particularly coffee. Brazil, which accounts for about one-third of the world's coffee supply, produced a record crop of 50.8 million bags in the 2011/12 season, while coffee output also expanded in Ethiopia and Uganda (ICO 2015).

Slowing demand and ever-increasing supply has led to a massive fall in the price of primary commodities. Bloomberg's Commodity Price Index plunged to an all-time low early in 2015, driven in large part by sharp declines in the global prices of crude oil, iron ore and copper (figure 8).¹¹ The decline in commodity prices has affected all major commodity aggregates (figure 9). The downturn in oil prices has been particularly steep, plunging 55 percent from August 2014 to August 2015—good news for

¹⁰ According to the World Bank, a number of factors contributed to the fall in oil prices in 2014: OPEC announcements in late November 2014 that it would not increase its output levels but maintain production at 30 million barrels per day (30mb/d); appreciation of the US dollar by around 10 percent against major currencies in trade-weighted nominal terms in 2014 and its negative impacts, including declines in the demand for oil in many countries that witnessed erosion in the purchasing power of their currencies; and long-term developments in the supply and demand conditions around the world. The World Bank reports that since 2011, US shale oil production has been on a steep rise – around 0.9 million barrels per day (around 1 percent of global supply) in 2014 alone (World Bank, *Ibid*, pp. 156-157). Although the exact contribution of each of these factors are yet to be quantitatively assessed, there is no doubt that expansion in the supply of shale oil output in the USA, continuing global concerns about supply conditions, and OPEC's policy of switching to that of maintaining market share even in a period of serious global oil price crisis situation are most apparent.

¹¹ Twenty-four commodities make up the Bloomberg's Commodity Price Index, including oil and gas, metals, and agricultural commodities.

African economies have struggled to adjust to recent commodity price declines.

oil-importing countries such as Senegal and Côte d'Ivoire, but bad news for Angola, Republic of the Congo, Nigeria and other oil exporters. The price of iron ore is down by about 40 percent in the year ending August 2015, although the prices of gold, silver and platinum have fallen a great deal less. Agricultural commodity prices, including cotton, soybeans, and sugar have also plummeted (the decline in coffee prices largely occurred prior to 2014). Overall, most commodity prices measured in dollars have fallen since the first half 2014 (Business Insider, March 2015 and table 2). The price of cocoa beans, which increased in the first half of 2014 and is down only 4 percent in the year ending August 2015, is an important exception.

3.2 Impacts

Commodity-dependent African economies have been forced to take extensive measures to accommodate declines in export earnings with the collapse of commodity prices. Governments had little choice but to reduce expenditures, undergo currency depreciations, and permit

Table 2: Change in major commodity prices, January 2014 - May 2015

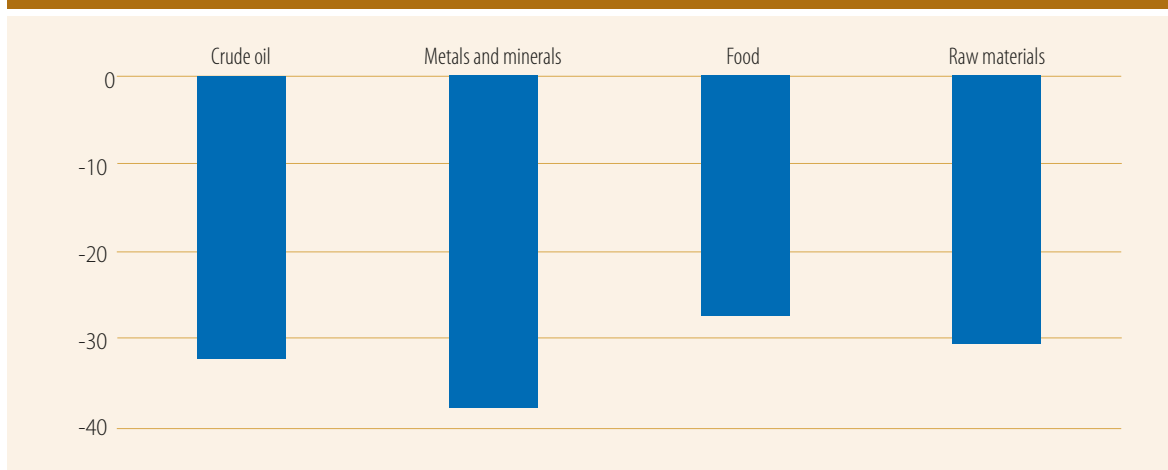
Variables	JAN 2014	MAY 2015	% Change
Iron ore, \$/dmt	128.12	60.00	-53.2
Copper, \$/mt	7 921.47	6 294.78	-13.7
Crude oil, Brentd, \$/bbl	107.42	64.56	-39.9
Gold, \$/toz	1 244.27	1 198.63	-3.7
Silver, \$/toz	19.87	16.83	-15.3
Platinum, \$/toz	1 420.95	1 140.40	-19.7
Cotton, A Index, \$/kg	2.01	1.61	-19.9
Cocoa, \$/kg	2.82	3.10	9.8
Coffee, Robusta, \$/kg	1.93	1.93	-0.2
Soybeans, \$/kg	566.00	390.00	-31.1
Sugar, world, \$/kg	0.34	0.29	-14.7
Tea, \$/kg	2.87	2.81	-2.3

Source: www.worldbank.org/commodities
 Note: dmt is dry metric tonnes; mt is metric tonnes; bbl is barrels of oil; toz is troy ounces; kg is kilograms.

a deterioration in fiscal and current account balances. This lack of flexibility has its source in the failure to take pro-active policies to improve savings during the extended commodity price boom from 2001-2011. The following discussion provides a thematic presentation of adjustment in the ten case study countries for this report (see chapter 4).

The downturn in commodity prices has sharply depressed foreign exchange earnings in many African economies, with important implications for macroeconomic stability. However, the evolution of export earnings differed considerably

Figure 9: Commodity prices are plunging (% fall in commodity prices from January 2011 to May 2015)



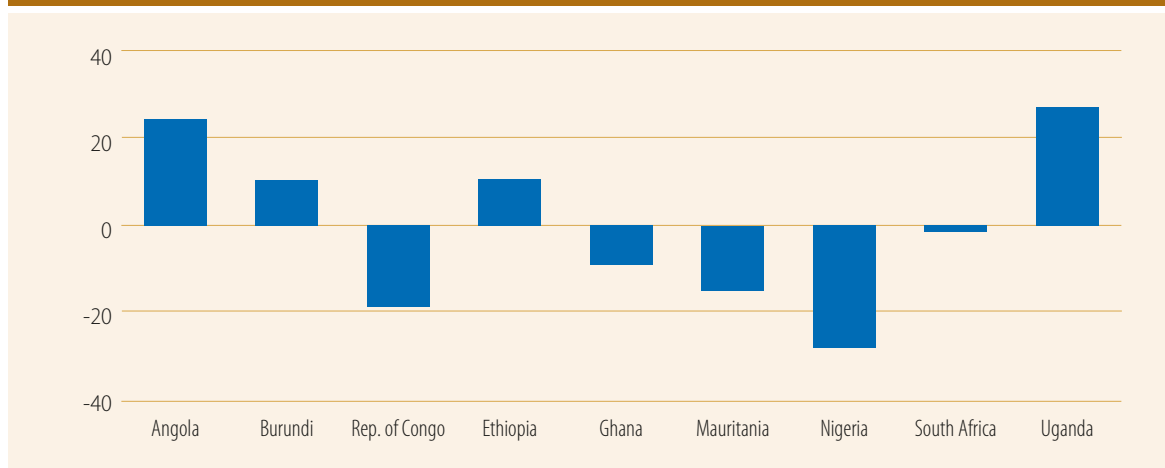
Source: www.worldbank.org/commodities

among the ten case study countries, since some were able to substantially increase their export volumes (at least through 2014), while the export composition and pricing arrangements varied considerably across these economies. A few countries that are dependent on oil or minerals also export commodities that experienced significant price increases, particularly cocoa in Ghana and Nigeria. Also, Angola's long-term contract to supply oil to China mitigated the extent of the immediate decline in export revenues. The ten case study countries all saw declines in their commodity export prices beginning in 2012, but only 5 experienced a fall in the purchasing power

of exports (exports in nominal terms divided by the import price index), which indicates the impact of external developments of the country's ability to purchase imports (figure 10).

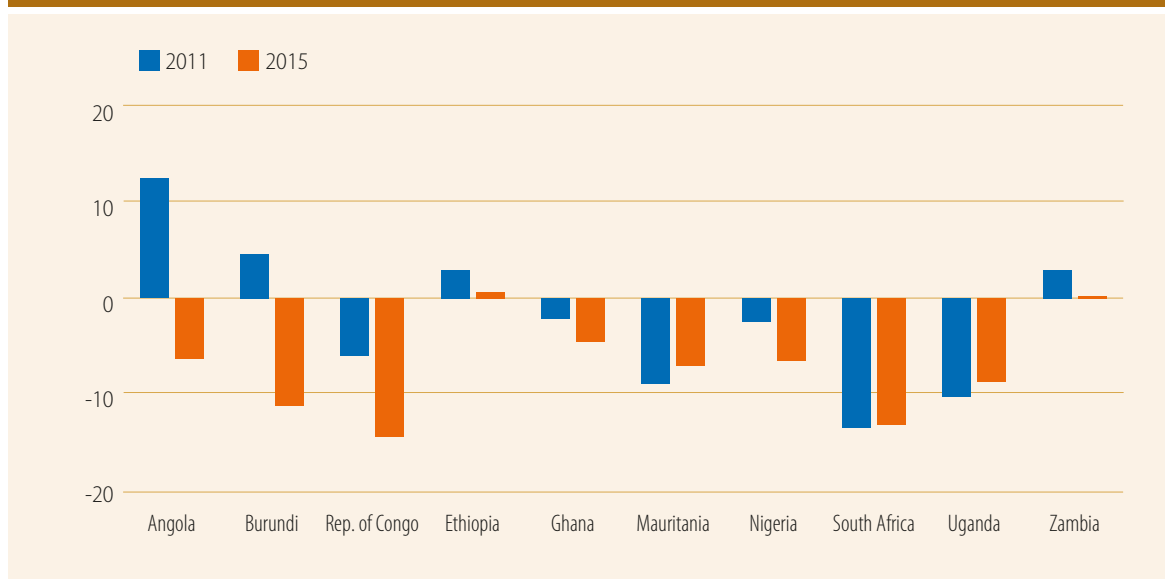
Declines or slower growth in export revenues led to a deterioration in current account balances in most of the case study countries (figure 11), with the exception of: Mauritania, which benefitted from sharp increases in iron ore production; South Africa, which has a more diversified export base than the other economies; and Uganda, since import volumes have grown considerably more slowly than export volumes over the period.

Figure 10: Many commodity exporters' ability to purchase imports fell, 2011-2014 (%)



Source: World Bank; see <http://data.worldbank.org/data-catalog/world-development-indicators>
 Note: Change in export revenues divided by import price level. Data for Nigeria, The Gambia and Zambia refer to 2013.

Figure 11: Current account balances deteriorated (% of GDP)



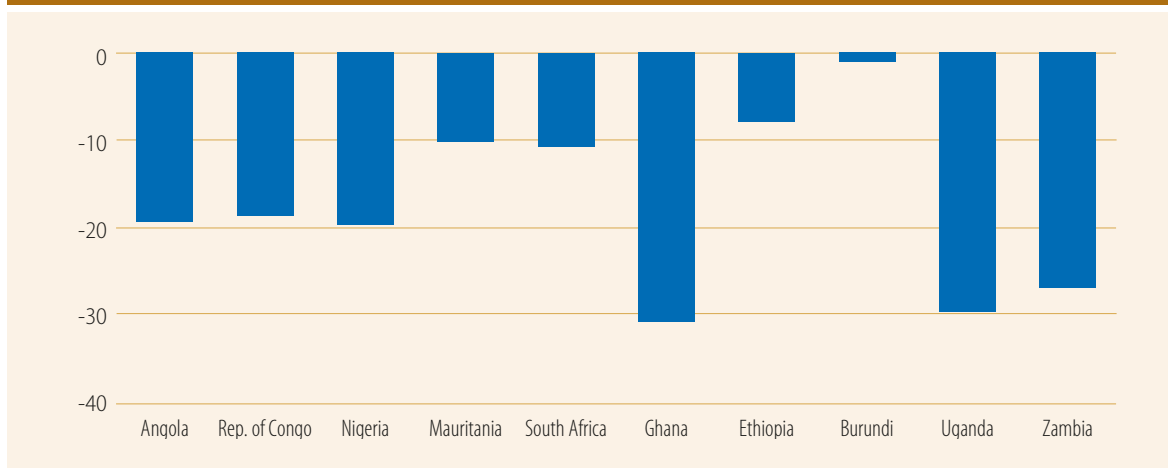
Source: World Bank; see <http://data.worldbank.org/data-catalog/world-development-indicators>

Commodity-dependent African economies undertook a broad spectrum of policy measures to cushion the impact of the commodity price decline on their economies. Nominal exchange rates with the US dollar depreciated strongly from January 2014 to mid-2015 in most case study countries as they adjusted to the decline in export prices. However, inflation remains higher in all case study countries than in the United States, so the real exchange rate with the dollar (in 2014) in most countries changed by around 6 percent or less (figure 13).

commodity prices. Several countries had built up significant levels of international reserves during the commodity price boom so that reserve drawdowns could be used to some extent to sustain imports in the face of the decline in export prices. African countries that had established sovereign welfare funds, such as Angola and Mauritania (and beyond the case study countries, Botswana, Chad, Gabon and Equatorial Guinea), tended to have saved a more significant portion of their revenues during the boom. While Nigeria's introduction of the excess currency account (a mechanism for saving oil revenues) was associated with an improvement in macroeconomic management following the global financial crisis (Saibu 2015), more recently government withdrawals from

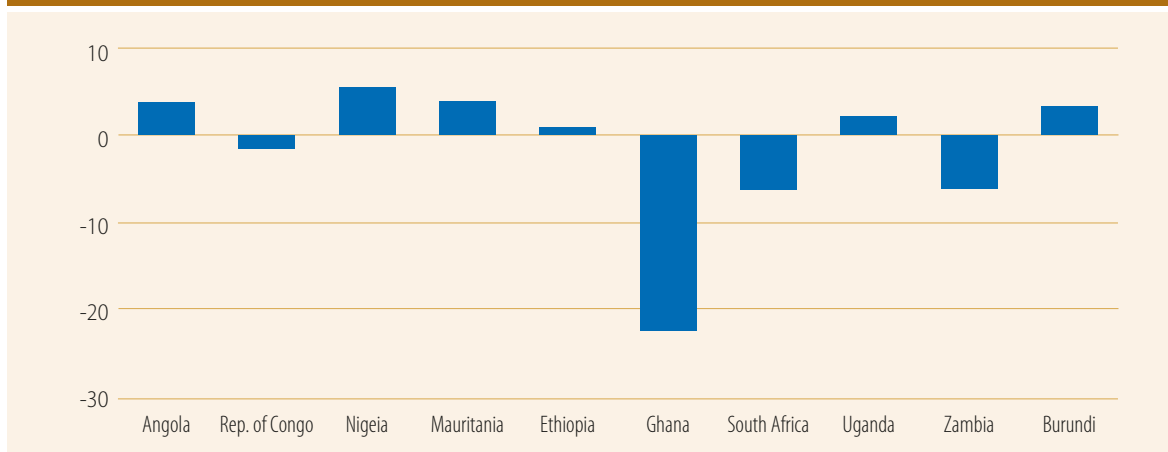
The level of international reserves played an important role in the extent of the immediate adjustment necessary to cope with the fall in

Figure 12: The nominal dollar exchange rate of case study countries depreciated through mid-2015



Source: World Bank World Development Indicators database; see <http://data.worldbank.org/data-catalog/world-development-indicators>
 Note: Percentage change of local currency against the US dollar, January 2014 to June/July 2015.

Figure 13: The real exchange rate with the US dollar of most case study countries changed by 6% or less in 2014



Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators> World Economic Outlook; see <http://www.imf.org/external/data.htm>
 Note: Percentage change of local currency against the US dollar in 2014 adjusted for difference in inflation rate with the United States.

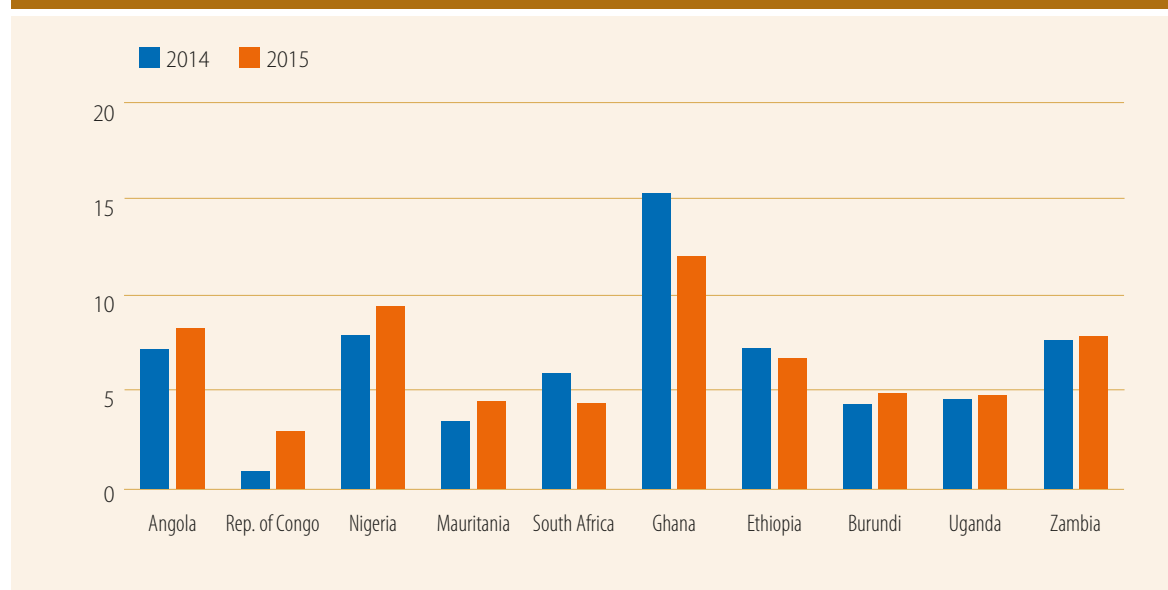
the account, combined with the low profitability and politically dominated governance structure of the newly-established sovereign wealth fund, have raised concerns about its operation (Hou et al. 2014).

Consumer price inflation has declined in most of the case study countries since earlier in this decade, largely owing to the decline in commodity prices. However, the change in consumer price inflation rates expected in 2015 compared to the previous year varies (figure 14). Several countries are expected to experience only a marginal rise in inflation for 2015 on average, including Uganda (although core inflation has begun to rise from 2.7 percent in December 2014 to 4.8 percent in May 2015 on an annual basis), Burundi, Mauritania and Zambia, due to lower fuel and non-oil commodity prices, assisted in some countries by tight monetary policies (e.g. in 2014 the Bank of Zambia raised the policy rate by 50 basis points to 12.5 percent). Currency depreciation is playing an important role in increasing inflation in Nigeria and Angola, although the central bank is tightening liquidity by increasing its policy rate and reserve requirements on banks. In Ghana, headline inflation was 17.1 percent in June, although inflation is expected to moderate to some extent because as the Government took steps in July to support the cedi.

As shown in figure 15, the majority of the case study countries have experienced a deterioration in fiscal balances as a share of GDP since the peak of commodity prices in 2011. However, figure 15 does not show more recent trends, which have varied. Zambia's fiscal deficit jumped to 6.5 percent of GDP in 2013 (in part due to large increases in civil service wages) and remained at 6 percent in 2014 (although the deficit taking into account increasing arrears increased from 7.5 percent of GDP in 2013 to 10.6 percent in 2014), while Angola's timely reaction to the oil price decline is helping to limit the general government deficit in 2015. Increases in taxes, savings from improvements in the payment and payroll systems, and delays in spending are reducing Uganda's fiscal deficit to below previous forecasts. The government deficit of the Republic of the Congo is expected to reach 7 percent of GDP in 2015, reflecting increased government spending and reduced oil revenues. Ghana's deficit is expected to improve in 2015, and fell below forecasts in the first four months due to strong revenue performance (IMF 2015c).

One gauge of fiscal pressure is the revision of government revenue estimates. Several oil exporters, including some of the case study countries, have significantly reduced the oil price assumed in their estimates of likely revenues

Figure 14: Consumer price inflation is expected to change little this year in most case study countries (percentage points)



Source: IMF; see <http://www.imf.org/external/data.htm>

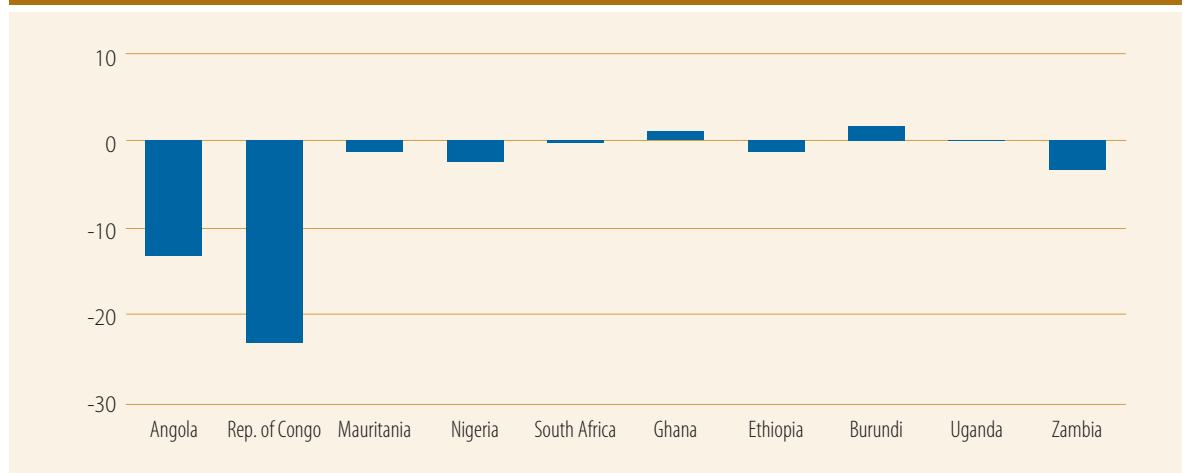
Note: The percentage point rise is found in consumer prices. 2015 data are forecasts from the IMF database extracted on 8 September 2015 from www.imf.org/data or from available Article IV consultations.

(figure 16). Nevertheless, these estimates remain well above the current price, most likely because the oil price has been dropping sharply while scheduled revisions to the budgetary estimates are infrequent. It is therefore likely that further downward revisions in fiscal revenues will be necessary.

3.3 Strategies and policy measures

Many case study countries adjusted their tax/expenditure policies to restrain the deterioration of fiscal balances. The potential for fiscal adjustment varied, depending on the extent of the loss in revenues, the availability of financing, and the position prior to the commodity price fall.

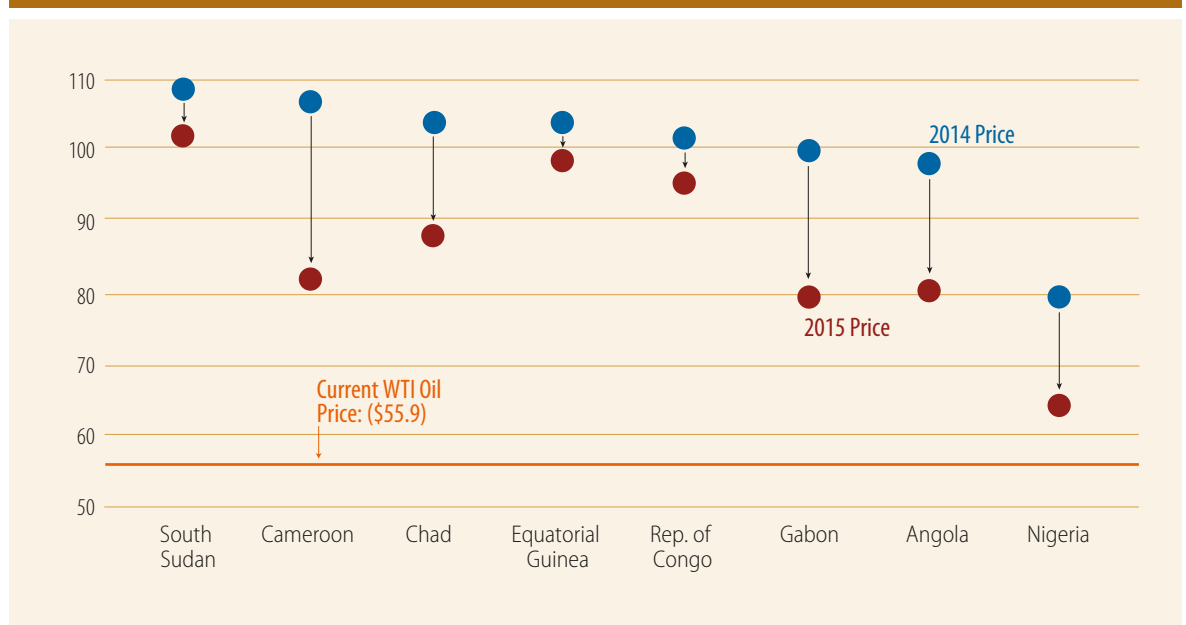
Figure 15: Fiscal balances in the case study countries have deteriorated
(change in fiscal balance as a % of GDP from 2011 to 2015)



Source: IMF database; see <http://www.imf.org/external/data.htm>

Note: The figure shows the general government balance (revenues minus expenditures) as a percentage of GDP, in 2015 (IMF estimate) minus the 2011 value.

Figure 16: Governments have revised the budgetary price oil downwards, 2014-2015



Source: The Brookings Brief (2014); see www.brookings.edu/blogs/africa-in-focus/posts/2014/12/23-oil-prices-exports-africa-sy

Many case study countries are increasing revenues to restrain the deterioration of fiscal balances. Measures include: increases in tax collection in Angola; increased tax on dividends and elimination of value added tax (VAT) exemptions on imports in Burundi, where new revenue measures are expected to raise revenues by 0.4 percent of GDP in 2015; tax increases on luxury goods in Nigeria; and increased taxes on fuel, tobacco, alcohol and personal income in South Africa.

Countries also aggressively pursued financing, for example by increasing efforts in borrowing through diaspora bonds in Ethiopia and Nigeria and by the cocoa marketing board in Ghana, the drawdown of overseas deposits and increased borrowing from the regional central bank by the Republic of the Congo, and requests for increased assistance from donors by countries dependent on aid.

Limits on government expenditures are resulting in delays or cancellations in critical investments. For example, the upgrading of infrastructure, such as roads and ports in Uganda, Nigeria and Zambia are being put on hold. The Nigerian budget provides for a reduction in capital expenditure of 44 percent in 2015 (Hou et al. 2015).¹² In addition, Angola is redirecting funds to infrastructure development, including roads rehabilitation, irrigation systems, and power generation and distribution. The Republic of the Congo is continuing with planned infrastructure investments, including improvements in the power distribution network. Mauritania is planning large investments in the production of energy from natural gas, wind and solar, and plans to export power to neighbouring countries.

Several countries are also limiting current expenditures. For example, Zambia is cutting spending on travel allowances, goods and services, and agricultural subsidies. Efforts to reduce the public sector wage bill are underway – in Burundi, in Zambia through the continued wage freeze, and in Nigeria through the elimination of over 60,000 ghost workers from the government payroll. Burundi also is taking steps to limit spending to funds immediately available.

The primary commodity price bust is reinforcing the urgent need for structural transformation.

The deterioration in fiscal positions has encouraged efforts to improve the efficiency of public expenditures, such as improvements in the planning and execution of investment projects in the Republic of the Congo, and the reduction of wasteful or non-essential expenditures in Angola, Burundi and South Africa.

Some governments also took measures to diversify the structure of production, to facilitate more rapid growth and reduce their dependence on volatile primary commodities. Such steps included adjustments to tax policies to encourage FDI and provide some protection for processing industries (e.g. the establishment of industrial zones in Angola and Ethiopia), the negotiation of trade agreements to encourage export production (e.g. Angola is exploring entry into the South Africa/EU free trade zone), incentives for industrial development (e.g. for textiles and garment, leather and leather products and agro-processing through industrial parks in Ethiopia), support for business involved in the processing of agricultural products in Zambia, and increased public investment in agriculture in Mauritania to expand the availability of arable land. Nigeria also scaled up oil refining capacity, boosted electricity generation capacity and reinvigorated its local content policy in the oil sector. At the same time, many of these economies continue to invest in the production of primary commodities. For example, Angola is in the process of expanding oil production, including through offshore wells.

¹² There is a pressure to reduce political office holders' salaries. The President and the Vice President have already done so while response from the Parliament is awaited.



Site of gold mining in Tamiougou just south of Kongoussi, Burkina Faso. Photo credit: Ollivier Girard for Center for International Forestry Research (CIFOR).

Chapter IV

Country case studies

Country case studies

4.1 Introduction

The major themes discussed above are elaborated in this chapter through the examination of ten case studies of commodity dependence in Africa. Three primary commodities that play an important role in African economies, namely oil, iron ore and coffee, are considered. For each commodity, at least one badly-affected and one mildly-affected country was selected. One country that exports copper was also included. The country selection was also guided by regional location and principal language in order to ensure a representative presentation of the challenges of commodity dependence for the continent. The ten countries selected are: Angola, Republic of the Congo and Nigeria (oil); Ghana, Mauritania and South Africa (iron ore); Burundi, Ethiopia and Uganda (coffee); and Zambia (copper).

The selection of commodities and countries is based on an assessment of the relative weight of a particular commodity in exports, total foreign exchange earnings, and fiscal revenues of a country. This assessment was undertaken for oil, coffee, iron ore and copper. The country selection also reflects an attempt to ensure representation from all of the regions in SSA (Southern, Central, Eastern and West African), as well as the main language (English, French or Portuguese). A brief analysis of the rising price of cocoa, given the positive impact on Ghana and Nigeria, was also undertaken.

In the ten case studies below, economic context, impacts and some policy measures are examined.

4.2 Angola

Economic context. Angola is the second largest producer of oil in Africa; it currently produces about 1.8 million barrels per day. Oil accounts for

The massive fall in revenues is severely constraining governments expenditures: several development projects suspended and contracts canceled – leading to job losses.

about 35 percent of GDP, 75 percent of government revenues and 95 percent of total exports.¹³ With around 46 percent of China's total oil imports from Angola (AfDB, OECD and UNDP 2014a), China is the major importer of Angola's oil. In the last two decades, the Government has embarked on major infrastructure investment and aggressive measures aimed at accelerating economic diversification and reducing the dependence on oil. However, this is yet to yield any appreciable results, since industry value added (which includes mining) rose from about 41 percent of GDP in 1990 to 72 percent in 2000 and declined to 60 percent of output by 2014 (table 3). Non-oil energy, agriculture, fisheries, manufacturing and construction sectors together account for less than 15 percent of GDP. Furthermore, construction continues to contribute a relatively small proportion to GDP: 8 percent in 2013 (figure 17).¹⁴

Social indicators have not kept pace with the strong performance of the economy over the last decade: around 36 percent of the population lives below the poverty line; the Gini coefficient of 0.586 is among the highest in the region; and unemployment remains at about 26 percent.

¹³ For the share of oil in GDP in 2014; see http://jornaldeangola.sapo.ao/politica/construimos_a_democracia_e_mantemos_a_unidade_na_diversidade. And for its share of government revenues and total exports see <https://www.imf.org/external/np/sec/pr/2015/pr15388.htm>.

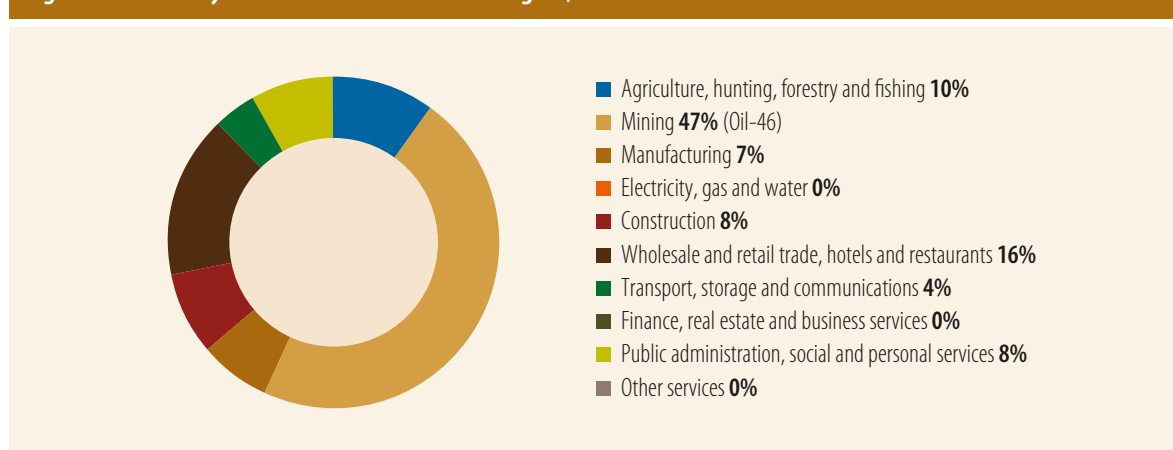
¹⁴ See AfDB, OECD and UNDP (2014a).

Table 3: Macroeconomic indicators for Angola, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
GNI per capita, Atlas method (current US\$)	3 420.0	3 880.0	3 960.0	3 970.0	4 580.0	–	–
GDP (current US\$ million)	84 178.0	75 492.4	83 369.5	110 890.6	125 430.1	142 737.6	147 552.0
GDP (constant 2000 US\$ million)	26 846.9	27 491.2	24 353.7	25 303.4	26 619.2	28 429.3	29 705.2
Real GDP growth (annual %)	13.8	2.4	3.4	3.9	5.2	6.8	4.5
Real per capita GDP growth rate (annual %)	10.6	-0.4	0.2	0.7	2.0	3.6	1.4
Gross capital formation (% of GDP)	16.0	16.1	29.0	28.2	29.5	23.7	24.3
Gross national savings (% of GDP)	24.8	5.2	22.5	25.5	26.6	20.2	18.9
Agriculture, value added (% of GDP)	6.8	10.5	10.1	10.3	10.2	10.2	–
Industry, value added (% of GDP)	69.2	60.5	61.5	62.0	61.5	61.5	–
Manufacturing, value added (% of GDP)	5.0	6.4	6.4	6.7	6.6	6.6	–
Services, value added (% of GDP)	0.0	0.0	0.0	–	–	–	–
Exports of goods and services (% of GDP)	76.3	54.9	61.9	61.2	57.1	48.6	45.8
General government final consumption expenditure (% of GDP)	26.4	24.1	17.4	18.6	18.2	26.1	26.9
Household final consumption expenditure (% of GDP)	32.5	60.3	34.5	31.7	31.8	29.6	30.8
Imports of goods and services (% of GDP)	51.2	55.4	42.8	39.6	36.6	28.0	27.8
Industry, value added (annual % growth)	13.0	-2.6	-0.5	-5.6	7.2	125.2	–
Manufacturing, value added (annual % growth)	11.0	5.3	10.7	14.0	6.0	–	–
Services, value added (annual % growth)	9.2	4.3	1.4	16.8	1.0	–	–
Central government, total revenue and grants (% of GDP)	50.9	34.6	43.5	48.8	45.8	42.5	38.4
Central government, total expenditure and net lending (% of GDP)	42.0	39.5	38.2	38.6	37.1	40.1	43.4
Central government, fiscal balance (% of GDP)	8.9	-4.9	5.3	10.2	8.7	2.4	-5.0
Money and quasi money (M2) as % of GDP	22.4	38.5	48.2	48.6	45.9	45.3	51.2
Money and quasi money growth (annual %)	66.2	62.6	12.4	37.2	8.5	13.5	18.1
Gross international reserves in months of imports	5.0	3.9	6.7	7.9	8.7	7.8	6.4
Gross international reserves (current US\$ million)	17 869.4	13 664.1	19 749.5	28 786.2	33 414.8	32 780.4	27 289.2

Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; IMF World Economic Outlook; see <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>

Figure 17: Industry is a small share of GDP in Angola, 2013



Source: AfDB, OECD and UNDP (2014a); World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

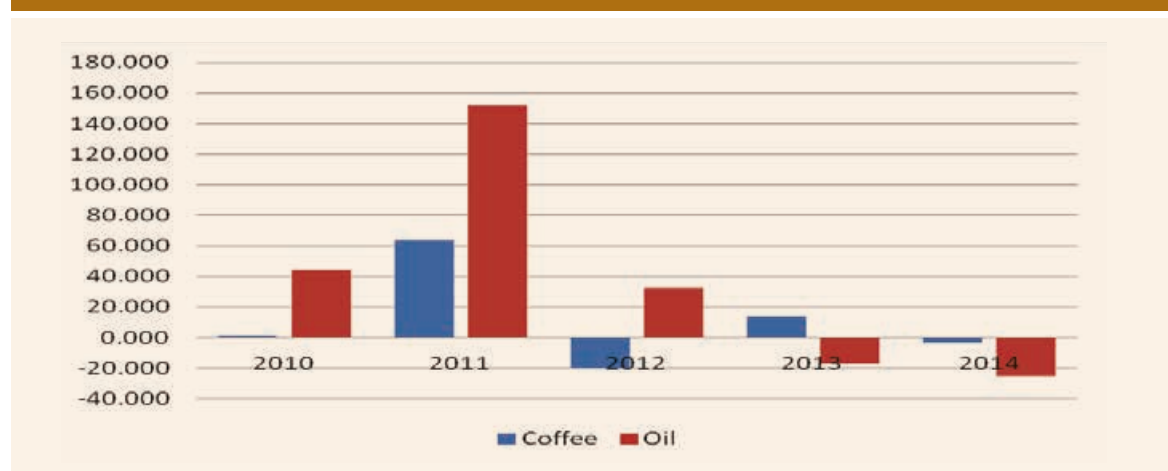
Impact of the commodity price decline. Projections for improved economic growth for 2014 and 2015 were based on the assumption that oil exports would reach \$62.9 billion in 2014 and \$67.4 billion in 2015, with an average oil price of \$98 per barrel and strong foreign direct investment (FDI). These forecasts have now been revised downwards in the wake of the dramatic downturn in oil prices since mid-2014, with public investment in infrastructure as the major contributor to the re-estimated growth figures. The August 2015 International Monetary Fund (IMF) estimate for Angola's economic growth for 2015-2016 is around an average of 3.5 percent per year.

Since oil represents over than 95 percent of the Angolan exports and 75 percent of the country's fiscal revenue, it is evident that the sharp decline

in international oil prices is having a significant impact on the country's economy. Foreign exchange earnings from Angola's earnings from oil and coffee, the country's major export commodities, fell in 2013 (figure 18). The current account and trade surpluses fell in 2013 through 2015 (figure 19). The buoyant level of international reserves helped the Angolan economy to better react to the fall in oil prices than in 2008-2009.

External reserves moved closely with oil prices from late 2012 to late 2014; both oil prices and reserves fell in the latter part of 2014, because Angola relied on its substantial stock of reserves to maintain investments in infrastructure. Despite reserves drawdowns, the oil price fall has been associated with some, albeit a relatively modest, depreciation of the kwanza (figure 20).

Figure 18: Angola's earnings from commodities slowed, 2010-2014 (% change in US dollars)



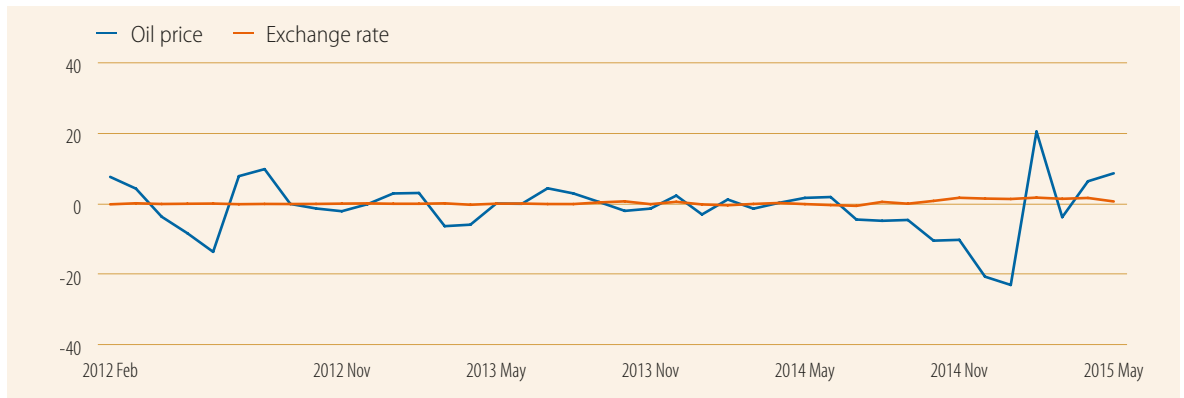
Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Figure 19: Angola's current account surplus fell, 2005-2015 (% of GDP)



Source: AfDB, OECD and UNDP (2014a).

Figure 20: Angola's current account surplus fell, 2005-2015 (% of GDP)



Source: World Bank data; see <http://data.worldbank.org/data-catalog/world-development-indicators>
 Note: Oil price is the Brent crude in dollars. Exchange rate is kwanzas per dollar.

The fall in commodity prices is sharply reducing government revenues. For instance, the 2014 budget was calculated using a reference price of \$98 per barrel of oil, which fell to about \$46 by December 2014. It further declined to below \$40 in August 2015. The massive fall in 2015 budget oil revenues by about \$17 billion (table 4) is severely constraining government expenditures.

The economy has been badly hit by the decline in the oil price. The Government has had to impose severe cutbacks in expenditures, suspend several development projects, and cancel contracts, leading to some job losses.

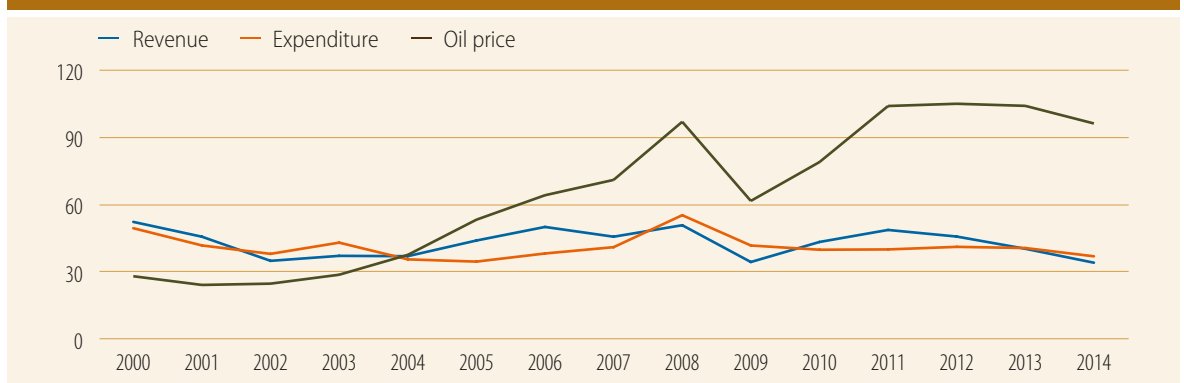
As in many commodity-dependent economies, fiscal expenditures tend to rise during commodity price increases and fall during commodity price declines. However, at times this relationship has been muted in Angola, as the Government has continued to invest heavily in infrastructure and the establishment of free trade and industrial zones. For example, the sharp decline in revenue with the oil price fall in 2009 was accommodated by a more limited fall in expenditures and some rise in the fiscal deficit (figure 21). Further, the Government appears to have avoided a large jump in expenditures (as a share of GDP) during the recovery of oil prices in 2010 and 2011.

Table 4: Impact of oil price fall on government revenue in 2014

Oil	2014 Price – before the fall	Rev	Difference
Price (US\$ billion)	104	60	44
Production	1.66	1.66	0
Export receipts (US\$ billion)	63	36	27
Budget revenues (US\$ billion)	31	14	17

Source: IMF 2015.

Figure 21: Angola's expenditures did not rise sharply with oil boom, 2000-2014



Source: World Bank data; see <http://data.worldbank.org/data-catalog/world-development-indicators>
 Note: Oil price is the Brent crude in dollars. Exchange rate is kwanzas per dollar.

Policies. Due to the recent fall in oil revenues, the Government must revise its estimates of revenues and expenditures, and provides a greater impetus to economic policies aimed at diversification. In the short term, Angola's long-term oil supply contracts with China (signed in 2002) have limited the decline in export revenues. Angola also continues to have a substantial stock of foreign exchange reserves, despite the recent decline, which provides some potential for accessing credit to meet unexpected problems.

Since late in 2014, the Government has strengthened efforts at diversification into agriculture by involving key partners such as China, Brazil and Portugal. In the agricultural sector, for instance, a \$350 million loan has been approved to finance small- and medium-scale farmers. The Government is also negotiating with Lonrho to develop 25,000 ha in agricultural projects.

The Government is also planning to revamp tax policy to encourage the growth of infant industries and to attract FDI. A new labour and private investment law has been promulgated to strengthen the investment climate. New industrial zones are being established on the outskirts of Luanda, the largest of which is in Viana. It is hoped that these industrial zones will generate more jobs – skilled and unskilled – and help Angola to reduce its dependence on imported goods. Efforts to promote Angola's entry into the South Africa/EU free trade Zone (EU/SAFTA) will also be intensified. A new cement plant at Lobito is planned, with a production capacity of 500,000 tonnes a year of clinker and about 650,000 tonnes a year of cement. An investment of \$900 million may be undertaken in the Cassinga iron ore mine, which would involve \$400 million for manganese projects and the production of 400,000 tonnes of fertilizer. In 2013, the Japanese company Marubeni Corp announced a \$1 billion investment to revamp three fabric plants that will employ 2,700 people, with production planned to begin in 2015.

Although these policies represent some progress in structural reform, a more rapid diversification of production is essential. For instance, instead

of importing all major inputs for the oil industry, Angola needs to begin broadening its participation in sectors such as the refinery, petrochemicals and other high technology processing sectors to enhance its linkages with the global economy.

On the assumption that oil prices may soon begin to rise, Angola is aiming to increase oil output and maintain its position as Africa's second largest producer. Production is expected to rise from 1.8 million barrels per day (bpd) in 2013 to 2 million bpd in 2016, with new fields, notably, British Petroleum's Plutão, Saturno, Venus and Marte complex, Cobalt International Energy's Deepwater exploratory wells and Chevron's development of the Mafumeira Sul project just off the Angolan coast.

In its 2015 Budget, the Angolan Government proposed a revision of the reference price of oil per barrel to US\$40, which would result in a halving of current expenditures and a 53 percent decline in investment expenditures. The central government deficit would fall to around 3.5 percent of GDP, compared to the 6.5 percent in 2014,¹⁵ and the debt to GDP ratio would remain at about 45.8 percent. The government has also put in place more coordinated economic policy measures, including increases in tax collection, a redirection of resources of the National Development Fund, and the mobilization of external sources of financing to support business projects in the non-mineral sector and mercantile services. Major development projects being planned by the Government include the rehabilitation of secondary and tertiary roads, the building of energy-generation and distribution capacity, and the development of irrigation systems to spur agriculture productivity.

The Government also continues to undertake necessary steps to improve living conditions. Major investments are being made to expand access to electricity, water and transport, given current infrastructure deficiencies even in urban areas of the country. Financial sector policies are being modernized with the introduction of a new foreign exchange currency law for the oil sector and a mining law.

¹⁵ IMF estimates.

Monetary and exchange rate policies need to be focused on containing inflation while preserving an adequate level of international reserves. The National Bank of Angola is tightening liquidity conditions by raising its policy rate and banks' mandatory reserve requirements. Interventions in the foreign exchange market have allowed for an orderly depreciation of the kwanza. The wide and volatile spread between the parallel and official exchange rates combined with the backlog of foreign exchange buying orders in commercial banks tend to suggest some imbalances in the market.¹⁶ To control inflation and prevent a misallocation of resources in the economy, concerted efforts should be directed at managing the exchange rate.

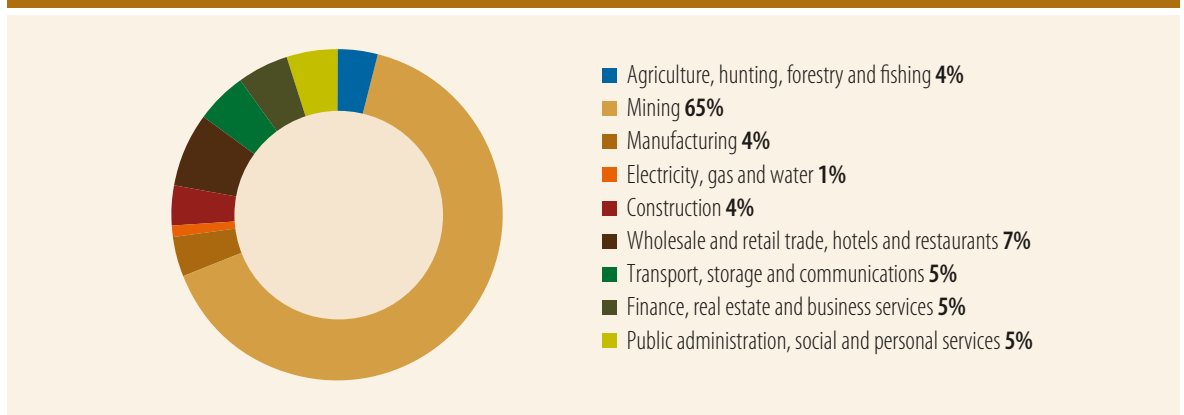
4.3 Republic of the Congo

The economic context. The Republic of the Congo's economic performance has remained largely satisfactory, although further progress is necessary to diversify the economy (see table 5 and figure 22). Manufacturing value added remained very low from 2007 to 2013, and real GDP growth appears to be driven essentially by services and industry, in particular mining. Oil accounted for 85 percent of exports, close to 65 percent of GDP, and around

80 percent of overall government revenue in 2012/2013.¹⁷ After rising from 3.4 percent in 2011 to 3.8 percent in 2012, GDP growth fell to 3.4 percent in 2013 (table 4) as ageing oil wells and outmoded production techniques contributed to a fall in oil production. However, growth is estimated to have recovered to 6.8 percent in 2014 due to high public investment expenditures financed by reserves drawdowns. Earlier forecasts (AfDB, OECD and UNDP 2014e) projected GDP growth at about 6.5 percent in 2015, based on continuing government investment, the entry into production of additional mines, and the vigour of the non-oil sectors. However, recent global oil market developments and some delays in the coming on stream of a new oil field are now expected to reduce GDP growth to one percent in 2015. Growth is forecast to average 3 percent from 2015-2020.¹⁸

Despite the relatively good growth performance of the last decade, the country's social indicators indicate that growth has not been inclusive. Although the poverty rate fell from 50.7 percent 2005 to 46.5 percent in 2011, youth unemployment still stands at about 25 percent; these levels of unemployment and poverty are high for a middle-income country (AfDB, OECD and UNDP 2014e).

Figure 22: Republic of the Congo's GDP is heavily concentrated in mining (% in 2013)



Source: African Development Bank, African Economic Outlook 2014, Congo and World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

¹⁶ "IMF Staff Completes 2015 Article IV Mission to Angola". Staff Completes 2015 Article IV Mission to Angola. Press Release No. 15/388. 25 August 2015.

¹⁷ In 2014, Republic of the Congo received \$10.7 billion revenue from petroleum alone (Asia Pacific Policy 5 Project 2015).

¹⁸ See IMF Staff report for 2015.

Table 5: Macroeconomic indicators for the Republic of the Congo, 2009-2014

	2008	2009	2010	2011	2012	2013	2014
GNI per capita, Atlas method (current US\$)	1 870.0	1 950.0	2 240.0	2 200.0	2 550.0	–	–
GDP (current US\$ million)	10 593.6	8 730.8	12 281.0	14 797.5	13 656.2	13 795.9	14 705.2
GDP (constant 2000 US\$ million)	4 339.0	4 664.5	5 081.9	5 254.6	5 454.3	5 634.3	5 972.2
Real GDP growth (annual %)	5.6	7.5	8.7	3.4	3.8	3.3	6.0
Real per capita GDP growth rate (annual %)	2.7	4.7	5.7	0.7	1.2	0.8	3.4
Gross capital formation (% of GDP)	34.7	46.3	29.7	34.5	40.6	53.5	61.0
Gross national savings (% of GDP)	4.8	10.3	24.3	31.3	24.8	27.6	33.3
Agriculture, value added (% of GDP)	4.0	5.0	3.8	3.3	3.7	3.7	–
Industry, value added (% of GDP)	75.3	68.2	75.5	77.7	74.4	74.4	–
Manufacturing, value added (% of GDP)	3.7	4.8	3.5	2.8	3.3	3.3	–
Services, value added (% of GDP)	0.0	0.0	0.0	–	–	–	–
Exports of goods and services (% of GDP)	81.4	76.2	92.2	84.9	80.4	76.2	72.4
General government final consumption expenditure (% of GDP)	9.1	10.1	8.0	7.3	14.2	14.4	10.5
Household final consumption expenditure (% of GDP)	25.2	31.1	24.1	22.2	24.8	27.7	31.0
Imports of goods and services (% of GDP)	50.3	63.7	54.0	49.0	60.0	71.8	74.8
Industry, value added (annual % growth)	7.1	12.7	10.7	-0.5	1.7	123.3	–
Manufacturing, value added (annual % growth)	7.0	5.5	5.2	10.8	11.4	–	–
Services, value added (annual % growth)	4.1	0.3	2.9	16.1	14.2	–	–
Central government, total revenue and grants (% of GDP)	52.6	32.4	38.0	41.4	45.9	44.4	42.7
Central government, total expenditure and net lending (% of GDP)	26.4	27.2	21.7	25.4	30.5	32.3	32.1
Central government, fiscal balance (% of GDP)	26.1	5.2	16.3	16.0	15.3	12.1	10.5
Money and quasi money (M2) as % of GDP	20.7	24.9	26.0	30.2	36.8	38.9	40.0
Money and quasi money growth (annual %)	37.1	5.0	36.6	33.7	21.4	3.5	9.5
Gross international reserves in months of imports	8.3	9.5	7.7	8.3	8.7	–	–
Gross international reserves (current US\$ million)	3 872.4	3 806.3	4 446.9	5 641.1	5 549.6	–	–

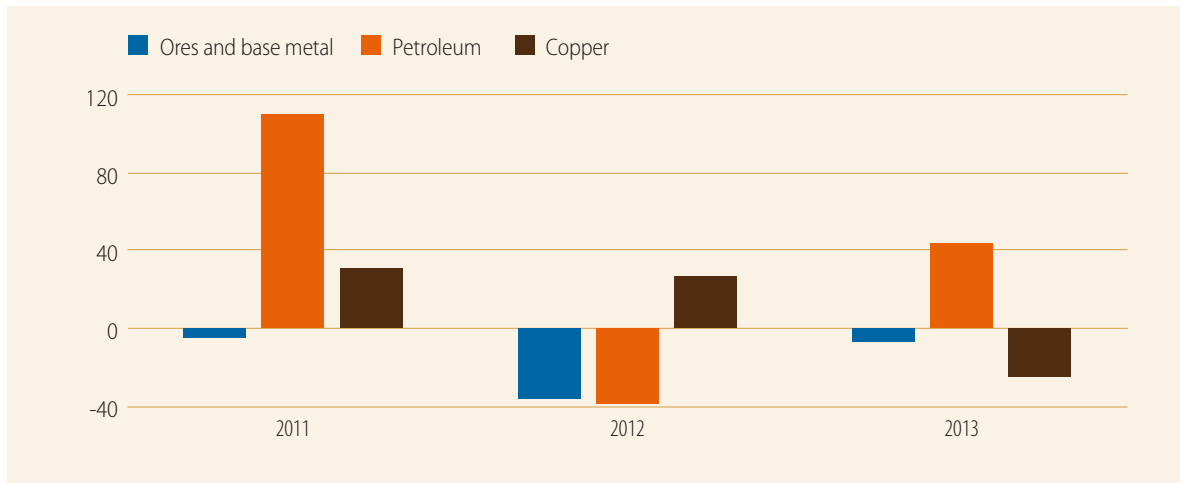
Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; IMF World Economic Outlook; see <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>.

Impact of the commodity price decline. In 2013, the fall in commodity prices reduced export revenues of the Republic of the Congo's from oil and minerals (figure 23). Oil revenue fell from 2,295 billion CFA francs in 2013 to 1,973 billion in 2014, and it is estimated to further fall to 886 billion in 2015 (IMF 2015). The merchandise trade deficit rose until the second half of the year, and has declined since (figure 24). While international reserves fell from end-2012 to end-2014 (figure 25), they remain well above levels at the end of the last decade. However, the prospects for a rise in export earnings are good, given the imminent exploitation of the country's substantial deposits of iron ore and potassium (AfDB, OECD and UNDP 2014e).

The Government lowered revenue estimates based on an oil price of \$70 per barrel at the end of 2014 during the adoption of the initial 2015 budget. The price was further lowered to \$50 in June 2015. The decline in oil revenues in 2015 is expected to reduce the country's fiscal surplus to 2.6 percent of GDP, and the current account deficit may widen to more than 4 percent of GDP (World Bank 2015). The 2015 IMF Staff report revealed that was no fiscal surplus in 2014; for the first time in ten years, Congo had a deficit, equal to 8.5 percent of GDP.¹⁹ Budgetary assistance is being sought from international development partners.

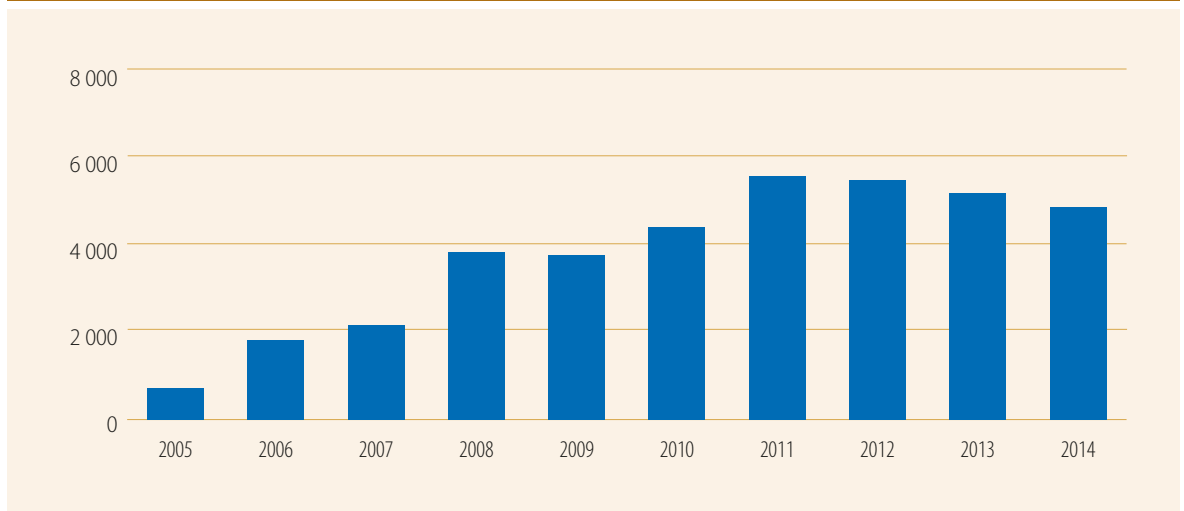
¹⁹ The 2015 African Economic Outlook put it at a deficit-GDP ratio of 5.4 percent.

Figure 23: Export earnings from Republic of the Congo's principal commodities fell, 2010-2013 (%)



Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Figure 24: Republic of the Congo's international reserves fell only slightly, 2011-2014 (US\$ million)



Source: IMF International Financial statistics; see <http://data.imf.org/?sk=5DABAFF2-C5AD-4D27-A175-1253419C02D1>

Figure 25: Republic of the Congo's merchandise trade deficit remains high (CDF billion)



Source: Banque Centrale du Congo, Balance of Payments Statistics; see www.bcc.cd/index.php?option=com_content&view=category&id=51&Itemid=82

Policies. The Government has recently introduced a fiscal rule aimed at protecting government spending from oil price volatility. Implementation should help strengthen public financial management and contribute to greater fiscal savings and foreign exchange reserves. Implementation of the fiscal rule and structural reforms would also benefit from enhanced coordination across ministries and closer monitoring of government agencies.

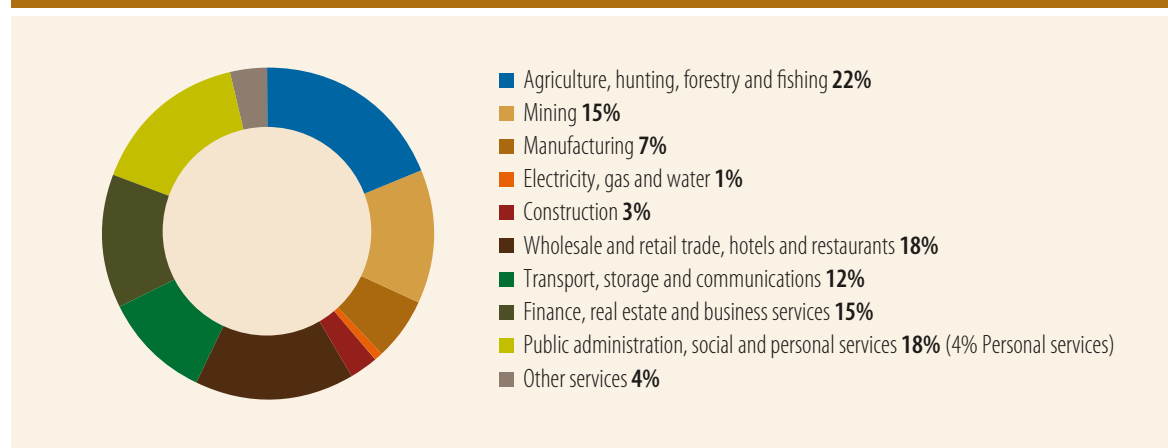
The Government is implementing reforms to strengthen public financial management, particularly to improve the efficiency of infrastructure investment, strengthen the preparation and planning of investment projects, establish a system for monitoring investment projects from commitment to budget execution, and streamline procurement procedures and the disbursement system. Planned investments in infrastructure, including efforts to improve electricity distribution, are expected to reduce production costs, and thus spur private sector growth and contribute to economic diversification. Plans also are in place to introduce a sovereign wealth fund. Taxes on the agriculture sector have been reduced to promote productivity and further diversification. Improving the business climate and finalizing special economic zones are among efforts needed to promote economic diversification in the country.

4.4 Nigeria

The economic context. Recently, Nigeria its GDP from 1990 to 2000, resulting in an 89 percent increase in the estimated size of the economy (AfDB, OECD and UNDP 2014g). This revision indicates that Nigeria is the largest economy in Africa. GDP is estimated to be \$569 billion, accounting for one-third of SSA's GDP in 2014. This exercise also revealed a more diversified economy than previously thought: services 52 percent of GDP in 2013; the industrial sector, 26 percent; and the agriculture sector, 22 percent (NBS 2014). Mining, oil in particular, contributed only 14.5 percent to GDP in 2013 (AfDB, OECD and UNDP 2014g; figure 26). Nevertheless, oil and gas still accounted for about 80 percent of export and budgetary revenues, and therefore continue to be critical to Nigeria's macroeconomic stability.

The oil sector has faced a number of challenges in recent years such as declining output, vandalism and theft, an uncertain regulatory environment, and low levels of new investment. The Petroleum Industry Bill, which is intended to clarify and improve regulatory conditions in the industry, has still not been passed into law in light of long-standing controversies surrounding the various drafts under consideration in the National Assembly. The promulgation of the law

Figure 26: Nigeria's production is diversified to some extent, 2013



Source: AfDB, OECD and UNDP (2014g) and World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

¹⁹ The 2015 African Economic Outlook put it at a deficit-GDP ratio of 5.4 percent.

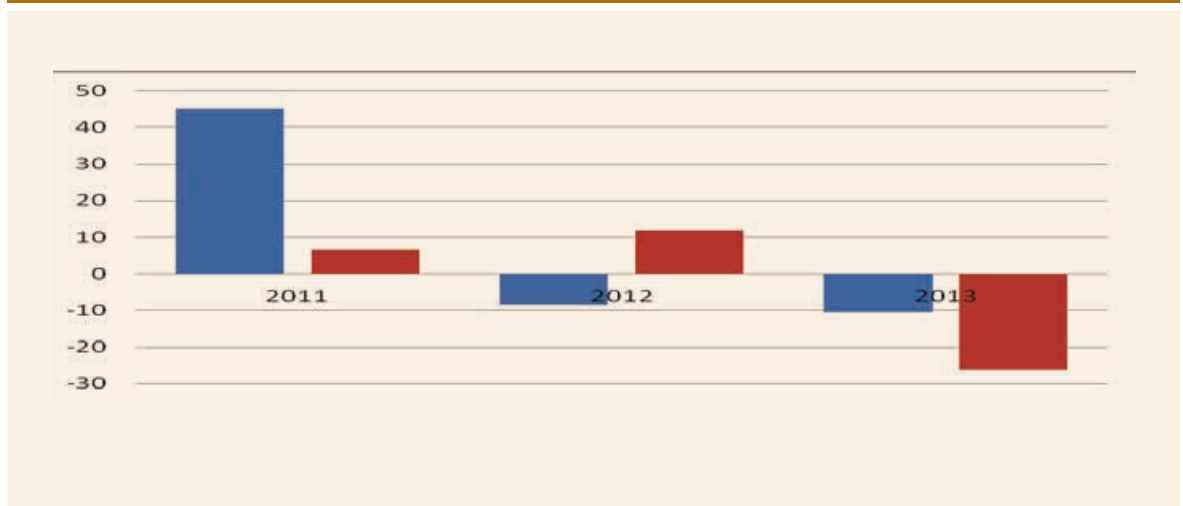
and its effective implementation will enhance the operational efficiency of the sector and its contribution to the overall economy.

Impact of the commodity price decline. The drop in global oil prices reduced Nigeria's export earnings from commodities (figure 27). Oil and gas export earnings fell from \$7.6 billion in May 2014 to \$7.1 billion in June 2014, and then to \$6.9 billion in September 2014. Nigeria's current account surplus has disappeared; gross international reserves fell by about \$9 billion (almost 20 percent) from 2013 to 2014; and the Naira depreciated by 25 percent from January 2014 to July 2015 (the naira exchange

rate moves closely with the price of oil (figure 28). The deterioration in the current account, reserves levels and the exchange rate would have been greater if not for increases in the prices of other commodities, particularly cocoa.

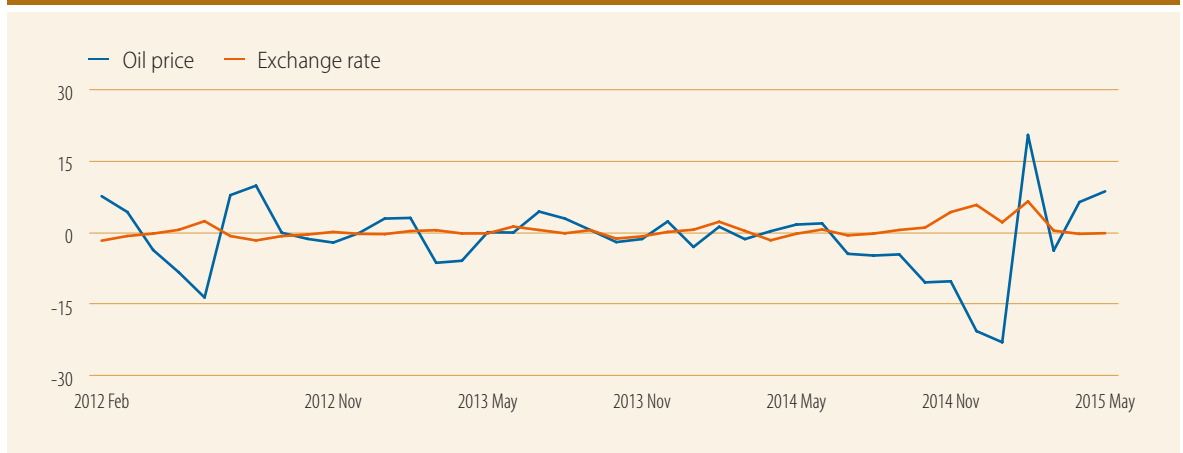
The fall in oil prices is impacting the real sector. The total value of capital inflows (including FDI, portfolio investment and other investments), which was \$5,804 million in the second quarter of 2014, fell by 54 percent to \$3,138 million in the second quarter of 2015 (NBS 2015).

Figure 27: Nigeria's export earnings from principal primary commodities are falling



Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Figure 28: Naira exchange rate with dollar moved with oil price, February 2014 – May 2015 (% change)



Source: World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

The ability of governments to honour domestic obligations to contractors and pay workers' salaries has been impaired. At least 18 of the 36 states of the Federation owe their employees at least six months' salary or pension arrears (Box 1 and Odusola forthcoming).

Policies. The sharp decline in foreign exchange earnings has necessitated a swift response from the Government. The oil price benchmark for the 2015 budget has been revised downwards, and the Central Bank has responded aggressively by devaluing the currency, widening its foreign

exchange intervention band to +/-5 percent, raising the monetary policy rate 100 basis points to 13 percent, and increasing the private sector cash reserve requirement. The Central Bank of Nigeria introduced some exchange rate restriction rules as demand management measures to forestall unnecessary depreciation of the naira. In order to reduce demand for foreign exchange, in August 2015, 41 items (including rice, wheat, palm oil, sugar, fish etc.) were excluded from the foreign exchange market. The deposit money banks also adopted a policy of rejecting cash deposits of foreign currencies into their vaults.

BOX 1: The Paradox of salary arrears in Nigeria

The 1999 Constitution (Chapter II, Section 17(3c)) is unequivocal about the fundamental objective of ensuring "the health, safety and welfare of all persons in employment are safeguarded and not endangered or abused". But the reality is a travesty of the implementation of the same Constitution. Ironically, the people elected by the sovereigns and empowered by the Constitution (the Executive, Legislative and Judicial arms of the Government) are victimized by this constitutional provision. The National Labour Congress (NLC) Task Force Report could only ascertain that 14 states and the Federal Capital Territory (FCT) were not indebted to their employees (Adamawa, Anambra, Bayelsa, Borno, Delta, Edo, the FCT, Gombe, Kaduna, Kwara, Lagos, Nasarawa, Niger, Sokoto and Taraba).

At least 18 of the 36 states of the Federation owe their employees at least six months in salary or pension arrears. As of May 2015, the following states owed their workers six months or more: Abia, Akwa Ibom, Bauchi, Benue, Cross River, Ekiti, Imo, Jigawa, Kano, Katsina, Kogi, Ogun, Ondo, Osun, Oyo, Plateau, Rivers and Zamfara. The situation in most of these states reveals a failure of political leadership. For instance, in Abia State, the employees of the State Teaching Hospital are owed nine months of salary arrears; the Hospital Management Board, eight months; the Abia State Universal Basic Education, Board, six months; the State Polytechnic, five months; local government, four months; and teachers, three months. However, there is some good news. Recent evidence indicates that the Abia State Government has paid civil servants up until May 2015. Benue paid half salaries for five months as a coping strategy. While Enugu State was current on civil servants' salaries, its parastatals' workers are still owed 12 months in salary arrears as of June 2015. By August, Kano State owed newly recruited teachers three months. Also, as of August, Osun State owed at least six months in salary and pension payments; Oyo State owed three months in salary and between five and 11 months in pension. Ogun State owed 52 months of unremitted pension deductions to the Pension Fund Administration. Plateau State owed six months in salary and seven months in pension. Pension and gratuity payments were last issued in 2010. Imo State only owed its civil servants one month as of June 2015, but owed 14 months in pension and four years in gratuity. Federal workers are also victims of salary and pension arrears. The Maritime Union Workers, for instance, claim they are still owed eight months in salary as of 12 August 2015. Anecdotal evidence shows that some federal MDAs are still owed July-October 2013 salaries. The Ministry of Education had a backlog of N2.00 billion, and the Ministry of Defense, N1.00 billion.

Source: Odusola (forthcoming).

Nigeria's sovereign wealth fund has not been efficiently and judiciously managed, and has not really provided much of a buffer against the oil price slump.²⁰ The fund is managed by the Nigeria Sovereign Investment Authority (NSIA) and was established in 2011 with a seed fund of \$1 billion to manage excess earnings from oil exports. The fund has three branches: the Future Generations Fund (\$200 million), the Infrastructure Fund (\$400 million) and the Stabilization Fund (\$400 million).

The finance and planning agencies aim to implement policies that will preserve fiscal consolidation during the 2014–2016 Medium Term Expenditure Framework (MTEF) cycle. The Government is cutting spending on government travel and equipment purchases, raising taxes on luxury goods such as yachts and private jets, and is considering removing the remaining fuel subsidy. Capital expenditure will also be cut to prevent the deficit widening beyond 3 percent of GDP during the MTEF cycle.

The policy to harmonize the Federal Government accounts (the Treasury Single Account, TSA) was initiated to enhance accountability and transparency in the use of public resources. The TSA is an administrative mechanism for consolidating all cash resources of the Government, in all MDAs purposely located in various bank accounts, under one unified management and control. The restructuring of the Nigerian National Petroleum Corporation (NNPC), which resulted in the exit of former managers, has led to the preparation of monthly reports for the corporation that had never produced reports over the past years. The investigation of the former leadership of the petroleum sector and the management of the Excess Crude Oil Account have also commenced.

Efforts to increase the fiscal space have led to the removal of the leadership in key revenue-generating institutions, including the NNPC, the Nigerian Customs Services, and the Federal Inland Revenue Services. The adoption of zero-based and results-oriented budgeting by the Buhari Administration is commendable. The implementation of the local content policy in the

oil sector and the promulgation of the Petroleum Act are critical to promoting the sector's efficiency and its integration into the rest of the economy. The current administration's commitment to fighting corruption will also bring prudence to the sector and enhance fiscal space of the Federal Government. Adherence to the global standards in the management of sovereign wealth funds and the Excess Crude Oil Account is vital to deepen fiscal space in the country.

4.5 Mauritania

The economic context. Over the years, Mauritania has enjoyed macroeconomic stability due to prudent monetary policy and rapid growth driven largely by mineral wealth and fisheries. Iron ore production, which was expected to increase to about 13 million tonnes in 2013, may reach as high as 40 million tonnes by 2025 (World Bank 2014). Real GDP growth averaged around 5 percent in the last decade and peaked at 6.4 percent in 2014 (table 6 and figure 30). GDP is projected to rise by 5.5 percent in 2015, with expansion in fisheries and other non-extractive industries compensating for lower growth in mining sector activity, as well as a slowdown in public investment and consumption. GDP is projected to rise by 6.4 percent in 2016, with copper, gold and manufacturing expected to be the fastest growing sectors.

Unlike most other African countries (Botswana and South Africa are exceptions), Mauritania is to a certain degree integrated into global value chains through its mining and oil sector, as well as its fisheries sector through activities at the Nouadhibou free trade zone (established in 2013). Industry value added in Mauritania continues to remain at about 35 percent (see table 5).

Impact of the commodity price decline. Mauritania remains exposed to external shocks due to its dependence on mining exports. It is the second largest producer of iron ore in Africa, with China being its major buyer. In 2013, iron represented about 75 percent of exports, 20 percent to its GDP, and about 30 percent of government fiscal receipts (UNDP 2014; IMF 2015a). Other commodity

¹⁹ Nigeria also issued a \$100 million diaspora bond in 2014, which it is planning to increase to \$300 million in 2015.

Table 6: Macroeconomic Indicators for Mauritania, 2008-2014

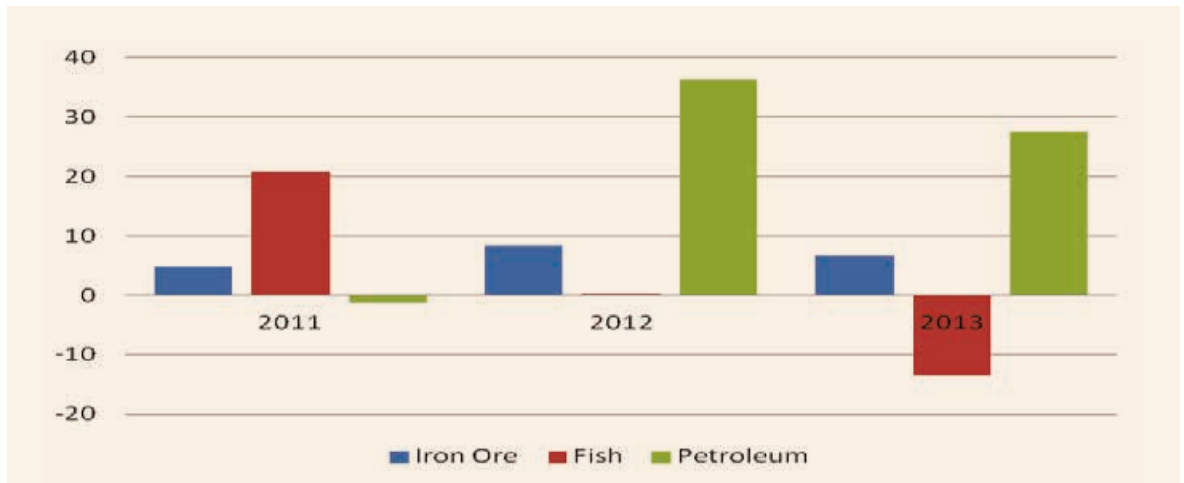
	2008	2009	2010	2011	2012	2013	2014
Agriculture, value added (% of GDP)	18.9	20.2	17.1	16.3	17.0	17.0	–
Central government, fiscal balance (% of GDP)	-6.5	-5.1	-1.8	-3.5	0.8	-3.7	-2.1
Central government, total expenditure and net lending (% of GDP)	30.6	30.6	27.7	29.9	36.9	36.9	34.4
Central government, total revenue and grants (% of GDP)	24.1	25.5	25.9	26.4	37.7	33.1	32.3
Exports of goods and services (% of GDP)	54.5	50.2	50.7	58.3	57.8	55.7	48.7
GDP (constant 2000 US\$ million)	1 534.8	1 516.4	1 587.0	1 644.2	1 759.3	1 859.6	1 982.5
GDP (current US\$ million)	3 513.2	3 016.8	4 334.7	5 118.9	4 845.2	5 034.6	5 460.5
General government final consumption expenditure (% of GDP)	18.9	19.5	19.9	17.5	19.6	20.3	20.4
GNI per capita, Atlas method (current US\$)	960.0	970.0	1 000.0	980.0	1 110.0	–	–
Gross capital formation (% of GDP)	27.8	24.6	5.6	5.1	3.7	0.2	0.2
Gross international reserves (current US\$ million)	189.2	226.0	272.3	485.3	950.1	831.4	–
Gross international reserves in months of imports	0.8	1.3	1.3	1.8	2.7	2.5	–
Gross national savings (% of GDP)	12.5	13.9	6.0	18.4	6.2	6.7	10.2
Household final consumption expenditure (% of GDP)	75.5	72.6	84.9	82.3	105.5	103.2	104.8
Imports of goods and services (% of GDP)	76.6	66.9	61.2	63.3	86.6	79.5	74.0
Industry, value added (% of GDP)	40.5	35.1	43.9	46.3	45.2	45.2	–
Industry, value added (annual % growth)	-1.2	-4.1	5.0	5.9	8.3	237.4	–
Manufacturing, value added (% of GDP)	3.8	4.1	3.7	3.7	4.0	4.0	–
Manufacturing, value added (annual % growth)	0.8	-2.1	7.0	8.0	8.0	–	–
Money and quasi money (M2) as % of GDP	28.8	35.1	30.2	29.5	32.4	–	–
Money and quasi money growth (annual %)	13.7	15.5	11.9	17.6	9.6	–	–
Real GDP growth (annual %)	3.5	-1.2	4.7	3.6	7.0	5.7	6.6
Real per capita GDP growth rate (annual %)	0.9	-3.6	2.0	1.0	4.4	3.2	4.1
Services, value added (% of GDP)	0.0	0.0	0.0	–	–	–	–
Services, value added (annual % growth)	4.5	-0.3	4.2	4.7	2.1	–	–

Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; IMF World Economic Outlook; see <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>

exports from Mauritania, though small compared to iron ore, include unprocessed oil, copper, gold and fish that are exported to Europe and China. Commodity export revenues have declined with the slump in prices (figure 29). The mining activities managed by the *Société nationale industrielle et minière de Mauritanie* (SNIM) on behalf of the State play a leading role in the mining industry, dominating exports and imports (AfDB, OECD and UNDP 2014i).

Over the years, government fiscal space has become increasingly dependent on mining revenue. The overall fiscal deficit is projected at 4.7 percent of non-extractive GDP (compared to 3 percent of non-extractive GDP under the revised 2014 budget law) on account of lower-than-expected contributions from SNIM and VAT receipts but anticipated levels of public investment, compared to the original budget (AfDB, OECD and UNDP 2014i and IMF 2015a).

Figure 29: Growth in export earnings from Mauritania's principal commodities fell in 2013 (% change)



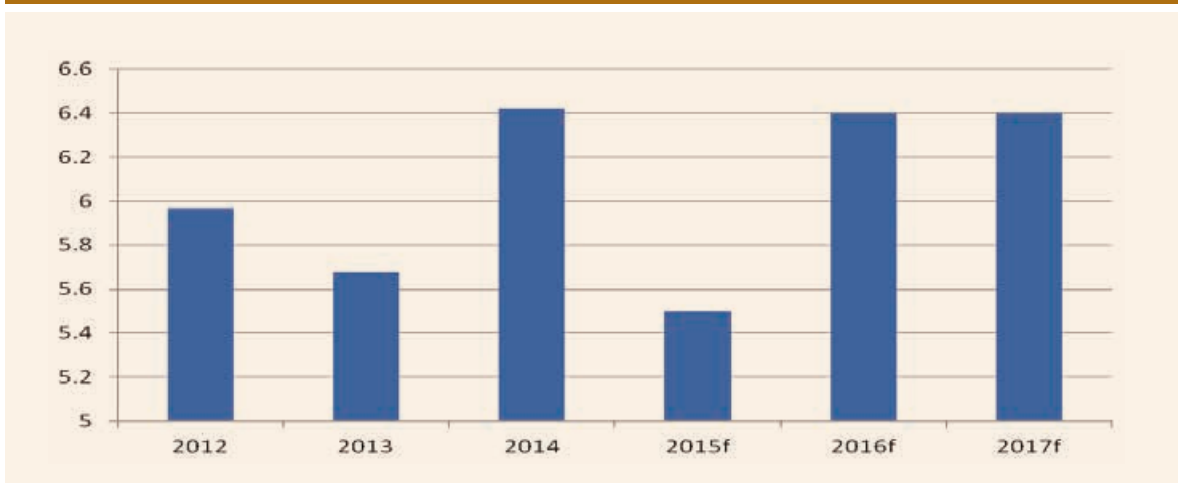
Source: UNCTAD (2015) unctadstat; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Iron ore prices on global markets fell from \$150 per metric tonne in January 2013 to about \$60 in May of 2013. International reserves data are not quite as current, but the Central Bank reports that official reserves assets fell by more than a third from end-2013 to end-2014. By 2014, reserves equalled about 4.5 months of imports. According to the IMF (2015a), if imports for the extractive industries are deducted from total imports, reserves should cover about six and a half months of imports. Further declines in iron ore prices could pose a serious threat to the sustainability of Mauritania's external position, fiscal balance, and growth prospects. Moreover, low iron ore prices could call into question the planned expansion of mining investment.

The current account deficit remained large from 2012 to 2014 (figure 31) because of capital imports for the mining sector and worsening terms of trade; the deficit peaked at about 25 percent of GDP in 2013 and 2014. However, the deficit is expected to decline to 7.7 percent in 2015, since imports of machineries are expected to stabilize considerably. Moreover, a significant portion of the current account deficit is financed by FDI inflows into the extractive sector (IMF 2015a).

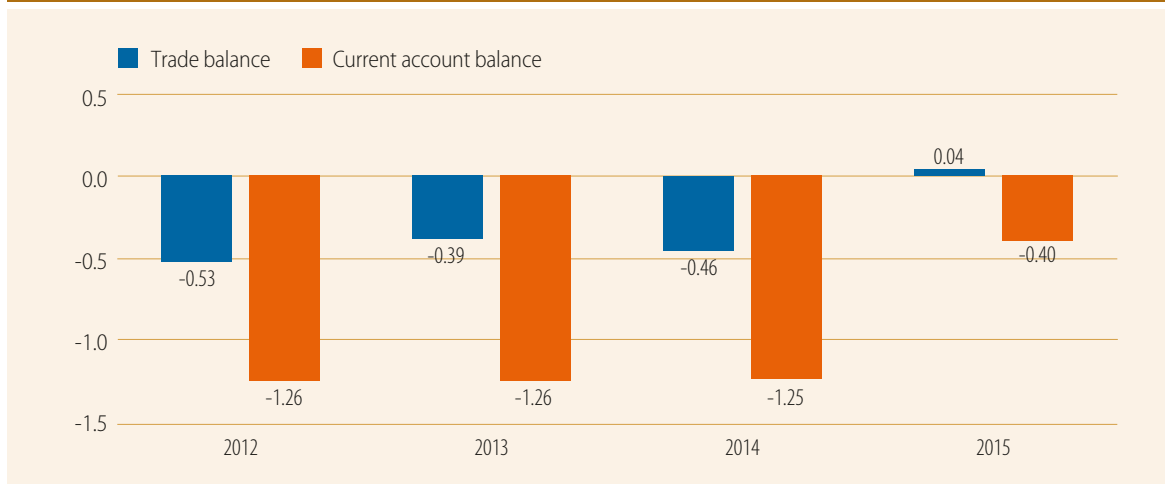
Policies. Looking ahead, improving the fiscal and external positions remains the Government's policy priority. To cope with the loss of revenues following the fall in mineral prices, the Government

Figure 30: Growth in Mauritania expected to fall in 2015, then recover, 2012-2017 (%)



Source: World Bank data and Banque Centrale Mauritanie; see www.bcm.mr/Pages/accueil.aspx
 Note: 2015f, 2016f and 2017f refer to forecasts.

Figure 31: Mauritania's current account deficit expected to fall, 2012-2014 (US\$ billion)



Sources: IMF (2015a). IMF Country Report No. 15/35, 2014 Article IV Consultation, IMF Staff Report, February; see <https://www.imf.org/external/pubs/ft/scr/2015/cr1535.pdf> and Banque Centrale Mauritanie; see www.bcm.mr/Pages/accueil.aspx

has taken measures to reduce expenditures and to mobilize new resources. To this end, agreements on the development of fisheries with the EU have been completed, and budgetary support obtained from Saudi Arabia.

The Government is increasing investment in the agriculture sector, with the objective of expanding arable land this year and the next, and is planning the construction of power plants using gas, wind and solar. The gas-to-power project, in particular, could more than double the power generation capacity in Mauritania, and power exports to Senegal and Mali would add to government revenues. It is also expected that business opportunities would expand in the Free Trade Area established in the northern region of Nouadhibou. However, the planned expansion of gold production by Kinross (the leading extractive company active in the country), which was expected to triple gold production by 2017/2018, has been put on hold due to the volatile commodities prices over the last year.

The Government has made substantial progress in domestic resource mobilization. Tax revenues (excluding those from natural resources) increased from about 15 percent of GDP in 2010 to 22 percent in 2013. Revenues from the corporate income tax jumped from 2 percent of GDP in 2010 to 4 percent in 2013 (AfDB, OECD and UNDP 2014i and IMF 2015a).

The authorities have been using a range of policy tools, including expenditure reductions, revenue increases, and requests for additional budget support from donors, to cushion the immediate impact on the economy of the decline in iron ore prices. Nevertheless, it will be difficult to avoid some depreciation of the ouguiya, and some cuts in the public programme. At the same time, the Government is implementing policies to increase the diversification of production and improve Mauritania's linkages with the global economy, including through the advanced processing of some of its metals, fisheries and agricultural in the free trade zones.

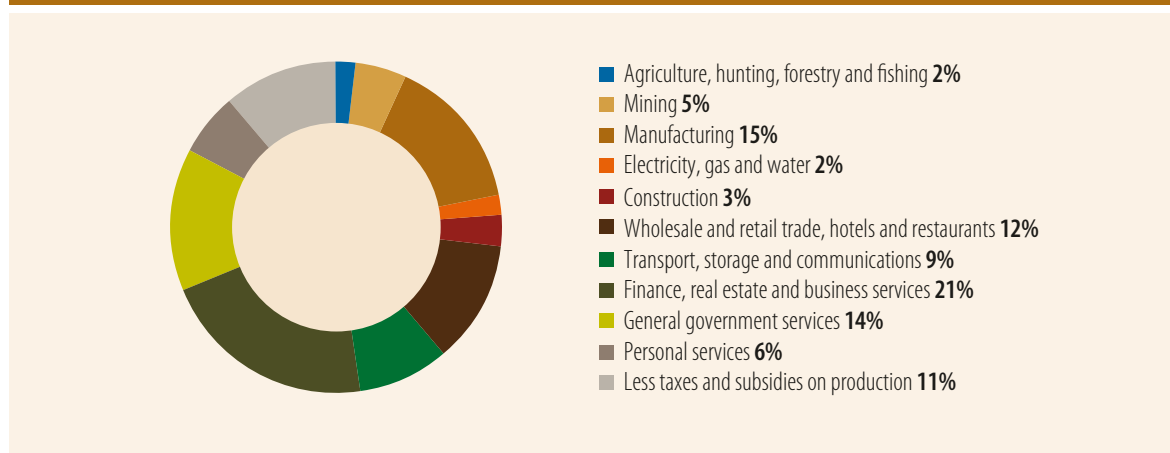
Mauritania's sovereign wealth fund, *Fonds Nationale des Revenus des hydrocarbures* (FNRH), was established on 14 June 2006 with \$0.3 billion and has since grown considerably. The Fund, managed by the Mauritanian Central Bank and Ministry of Finance, is designed to contribute to macroeconomic stabilization and to accumulate savings for future generations. One benefit of the Fund has been to improve confidence in the sustainability of Mauritania's fiscal and external accounts, thus helping to attract continued inflows of FDI, despite the crisis in the iron ore market.

4.6 South Africa

The economic context. South Africa's economy, ranked as upper-middle income by the World Bank, is currently one of the largest economies on the African continent, second only to Nigeria (post-2014 rebasing). Historically, it was built on primary and secondary industries, such as mining and manufacturing, but in recent decades, and in line with global developments, growth has shifted to tertiary industries (figure 32). Currently, sectors that make important contributions to the economy include: finance, real estate and business services; manufacturing; and wholesale and retail trade. However, despite long periods of positive economic growth, unemployment remains a key challenge.

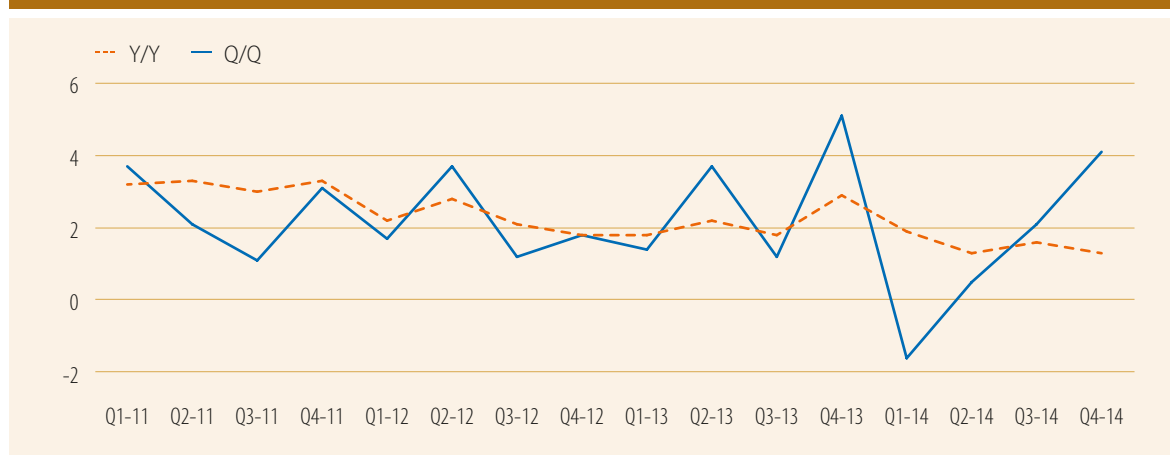
South Africa's economy grew by 1.5 percent in 2014, down from 2.2 percent in 2013, according to Statistics SA. The relatively poor economic performance in 2014 (figure 33) was largely due to the adverse effect of the labour strike in the platinum-mining sector in the first quarter of 2014, industrial action in the steel and engineering sector, and various structural impediments in the economy, including erratic electricity supply, lower prices of key export commodities (gold, copper, iron ore, and platinum), and subdued business and consumer confidence levels (SARB, 15 March, p. 5).

Figure 32: South Africa's production is diversified, 2013 (%)



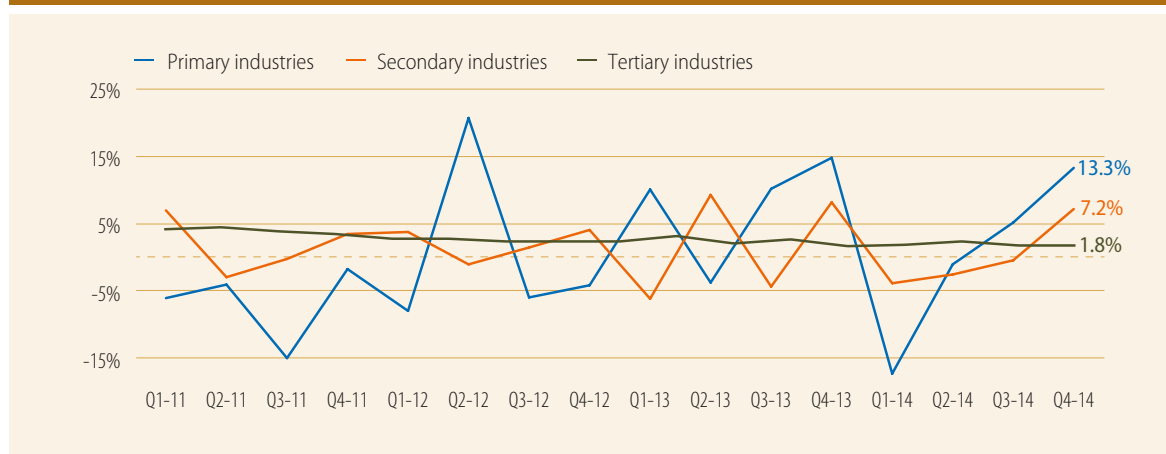
Source: World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; and the South African Reserve Bank; see <https://www.resbank.co.za/Pages/default.aspx>

Figure 33: South Africa's quarterly growth rate is trending down, 2011-2014



Source: Gross Domestic Product, Fourth Quarter 2004; see http://beta2.statssa.gov.za/wp-content/uploads/2015/02/GDP-Fourth-quarter-2014_Presentation.pdf

Figure 34: Primary production is volatile in South Africa, 2011-2014



Source: Stats SA; see <http://beta2.statssa.gov.za/publications/P0441/P04414thQuarter2014.pdf>

The mining sector was particularly hard hit. Mining activity fell by 22.8 percent in the first quarter and 3 percent in the second quarter, before increasing by 3.9 percent in the third quarter and 15.2 percent in the fourth quarter (figure 34). The increased mining activity in the fourth quarter was due to higher production in the mining of “other” metal ores (including platinum) and “other” mining and quarrying (including diamonds). Mining production fell by a further 5.4 percent in January 2015 compared to the previous month. Overall, mining production decreased by 4.7 percent from January 2014 to January 2015 (table 7), largely due to the 4.3 percent fall in gold production and the 2.3 percent decline in platinum and gold.

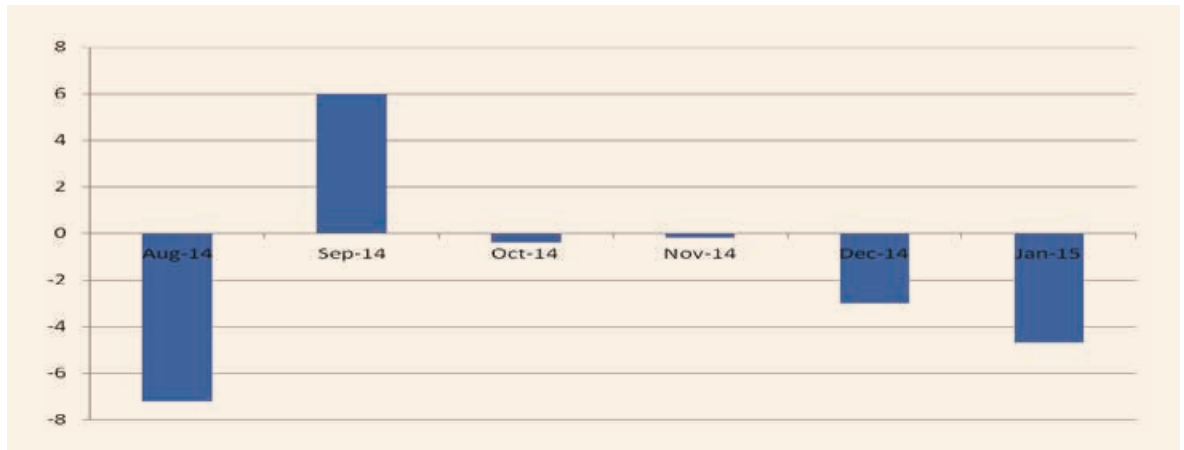
Production in the mining and industrial sectors has also been affected by serious shortfalls in electricity-generating capacity. The current production challenges in the electricity energy sector have had a knock-on effect on the cost of production in the mining and industrial sector, which is exerting upward pressure on domestic prices. The Government is planning to provide a lifeline of R23 billion to revitalize the energy sector and bring new power stations on the grid to boost mining and industrial capacity utilization.

Table 7: Key growth rates in the volume of mining production

	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Year-on-year % change, unadjusted	-7.2	6.0	-0.4	-0.2	-3.0	-4.7
Month-on-month % change, seasonally adjusted	-2.1	6.2	0.3	-1.1	0.2	-5.4
3-month % change, seasonally adjusted	-0.3	0.6	2.8	5.0	3.0	-0.6

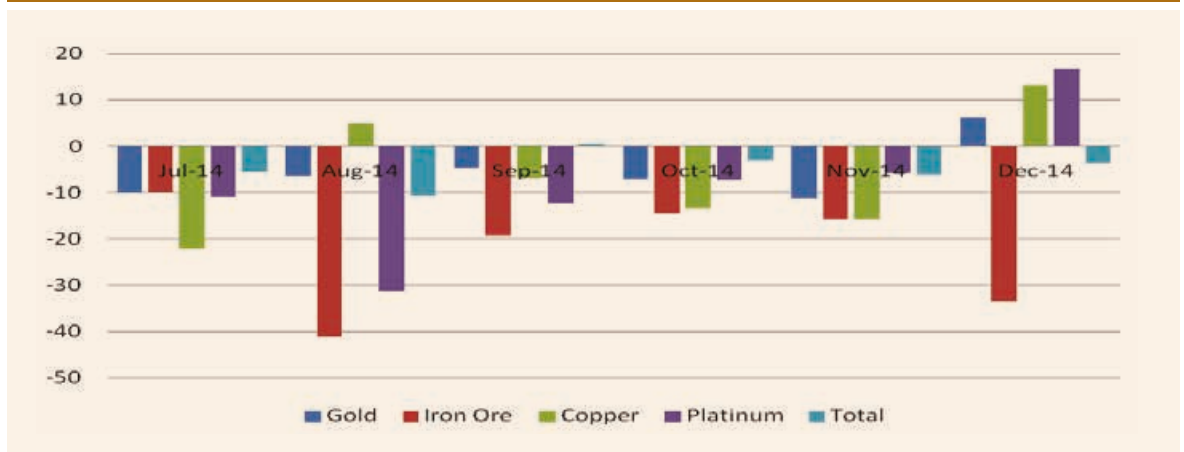
Source: Statistics SA (2015); see http://beta2.statssa.gov.za/?page_id=1879

Figure 35: Mining output in South Africa is falling (Rand million) (year-on-year), % change



Source: Statistics SA (2015); see http://beta2.statssa.gov.za/?page_id=1879

Figure 36: Production of major minerals in South Africa is falling (% change, year-on-year)



Source: Statistics SA (2015); see http://beta2.statssa.gov.za/?page_id=1879

Impact of the commodity price decline. Falls in the prices of gold, iron ore, copper and platinum, combined with the decline in production discussed above reduced foreign exchange earnings from minerals sales by 3.6 percent (year-on-year in December 2014; table 8), with the largest percentage declines for “other” non-metallic minerals (48.3 percent), followed by iron ore (33.6 percent) (Statistics SA, 2015). Lower production and prices drove significant declines in export earnings from South Africa’s major minerals (figures 35 and 36).

The fall in minerals prices has weighed heavily on South Africa’s budget and external accounts. The public sector borrowing requirement amounted to about 6 percent of GDP in the period April to December 2014, with both general government and the non-financial

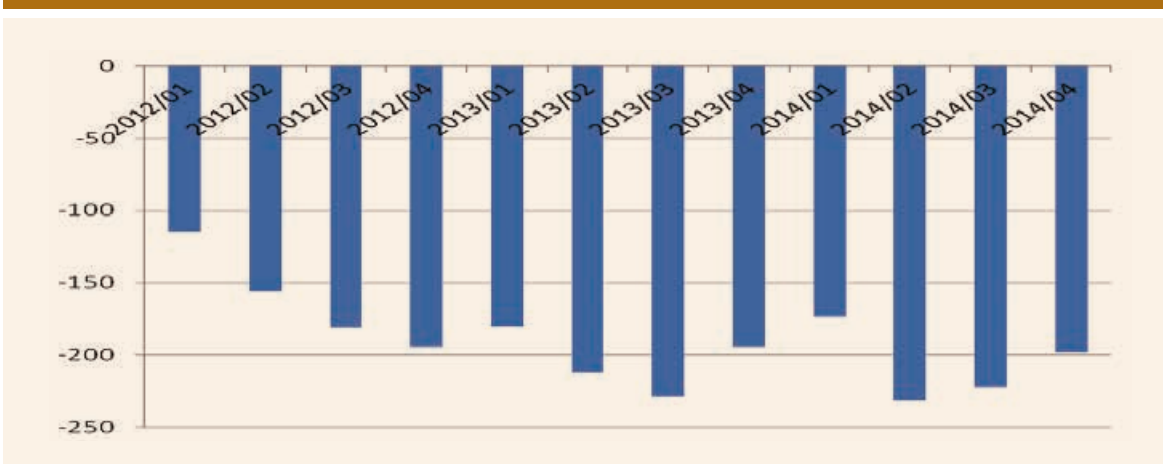
public corporations incurring deficits. Capital expenditure by the public sector continued to exceed the sector’s borrowing requirement over this period. Declines in the export of iron, gold, platinum and copper have led to a significant deterioration in South Africa’s current account balance since the second quarter of 2012 (figure 37). The rand has been subject to considerable volatility, and in May 2015 stood at ZAR 12 per dollar, a depreciation of about 15 percent over the previous 12 months. (Figure 38 shows considerable co-movement between the price of gold and the nominal exchange rate, although some periods are exceptions.) The depreciation of the domestic currency has not been able to stimulate an export boom due to the industrial actions by major mining companies’ workers, combined with lower electricity generation capacity.

Table 8: Year-on-year percentage change in selected mineral sales at current prices, by mineral group and mineral

Mineral group and mineral	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Gold	-5.5	-6.3	-4.6	-7.1	-11.2	6.1
Iron ore	-9.8	-41.2	-19.3	-14.6	-15.8	-33.6
Copper	-22.2	5.0	-6.9	-13.5	-15.7	13.2
Platinum	-10.8	-31.2	-12.2	-7.3	-5.7	16.6
Total	-5.6	-10.6	0.4	-3.1	-6.2	-3.6

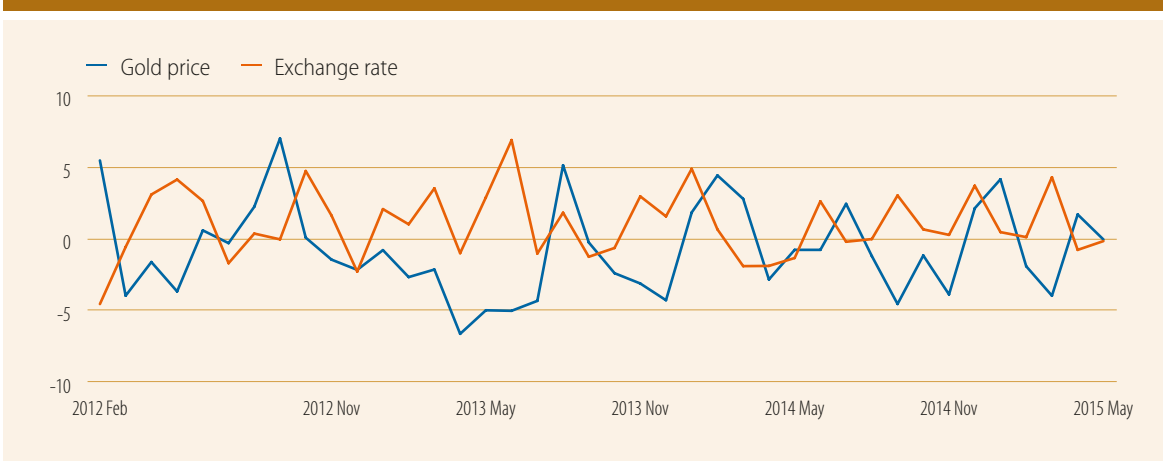
Source: Statistics SA (2015); see http://beta2.statssa.gov.za/?page_id=1879

Figure 37: South Africa's current account deficit remains high (Rand million)



Source: Reserve Bank of South Africa, Balance of Payments Account, Pretoria, 2015.

Figure 38: Rand exchange rate moved with gold price, 2012-2015 (% change)



Source: World Bank data; see <http://data.worldbank.org/data-catalog/world-development-indicators>
 Note: Gold price is dollars per troy ounce. Exchange rate is rand per dollar.

Despite slow economic growth, domestic share prices are increasing significantly, recovering from the losses incurred in the second half of 2014 to reach all-time high levels in March 2015. The domestic share market might have benefitted from sustained accommodative monetary policies in advanced economies, lower international oil prices and the depreciation of the rand (SARB 2015).

Policies. South Africa's growth momentum has faded progressively since 2011, and the budget for the 2015/16 fiscal year (delivered in February 2015) forecasts growth of only 2 percent in 2015, although increasing to 3 percent by 2017. The Government has reacted to the growth slowdown through prudent financial management, including steps to reduce wasteful expenditures and

improve efficiency. The 2015/16 budget includes measures to narrow the fiscal deficit and arrest the unsustainable upward trend in the Government's debt ratio. Government expenditure growth would be capped and various steps taken to raise revenues. The fuel levy is being increased, and the pump price of gasoline increased from ZAR 11.02 in February 2015 to ZAR 12.9 in April 2015, reversing the initial benefits of the global fall in oil prices. Taxes on alcoholic beverages (beer, sparkling wine and spirits), cigarettes, cigars and tobacco are expected to go up by between 4.8 and 8.5 percent. Personal income tax rates payable by persons in the middle- and higher-income groups are being increased. Public infrastructure investment in power generation is expected to ease supply constraints and boost industrial production and consumer confidence.

The high value of domestic content in mining exports reflects the industry's long history, local ownership and extensive backward integration into the wider South African economy. Improving the capacity of specific value chains, and on a globally competitive scale, is a critical part of a successful diversification strategy. South Africa would stand to benefit from the diversification promoted by linkages and spill-overs between industries. In order to increase the depth of value chains, measures that target skills development, expansion of technological capabilities and access to capital are essential.

The Government is intensifying efforts to diversify into non-mineral production and service sectors, which is crucial to create low-skilled jobs for unemployed youths and to create opportunities for high-skilled workers. To further diversify the economy, the Government plans to provide land to farmers who previously had none through the imposition of a land size ownership cap of 12,000 ha. In addition, 90,000 ha of land will be allocated to smallholder farmers, farm dwellers and labour tenants through the Land Reform Programme. Over and above this, 27 of the poorest district municipalities will receive agricultural parks as part of the effort to transform rural economies and diversify away from mining-dominated activities.

South Africa also has a strong comparative advantage in automobile production and export.²¹ The Government is providing R2.9 billion to companies in the manufacturing sector through the Manufacturing Competitiveness Enhancement Programme.

4.7 Ghana

The economic context. Ghana's economy is largely driven by services; agriculture is the main provider of employment; and natural resources (i.e. gold, oil and cocoa) are the key drivers of its exports. While Ghana has been exporting gold and cocoa for many years, oil has risen to become Ghana's second largest export since the commencement of oil production in December 2010. Ghana is endowed with abundant natural resources and a favourable tropical climate for rainfed agriculture; agriculture accounts for roughly one-quarter of GDP and employs more than half of the workforce, with the sector dominated by small landholder farming. Ghana recorded one of the highest GDP growth rates in the world (14 percent) in 2011; growth declined to the still-high rates of 9.3 percent in 2012 and 7.3 percent in 2013, and then to 4.2 percent in 2014. Ghana's growth has been relatively broad-based, driven largely by service-oriented sectors and industry, which on average increased at a rate of 9.0 percent over the five years up to 2013. The services sector recorded the highest growth of 8.9 percent in 2013, followed by industry 7.0 percent, with agriculture recording the lowest growth rate of 5.2 percent. Services accounted for 50.2 percent of GDP in 2014, industry (including mining), 29.2 percent; and agriculture, 20.6 percent (figure 39).

Three primary commodities (gold, mostly crude oil and unprocessed cocoa) now comprise about 80 percent or more of Ghana's exports. The mining subsector contributes significantly to Ghana's economic development. Gold mining accounted for 33 percent of merchandise exports in 2014, while crude oil exports accounted for 28 percent. Cocoa, including processed goods, accounted for 20 percent of exports. The international prices of

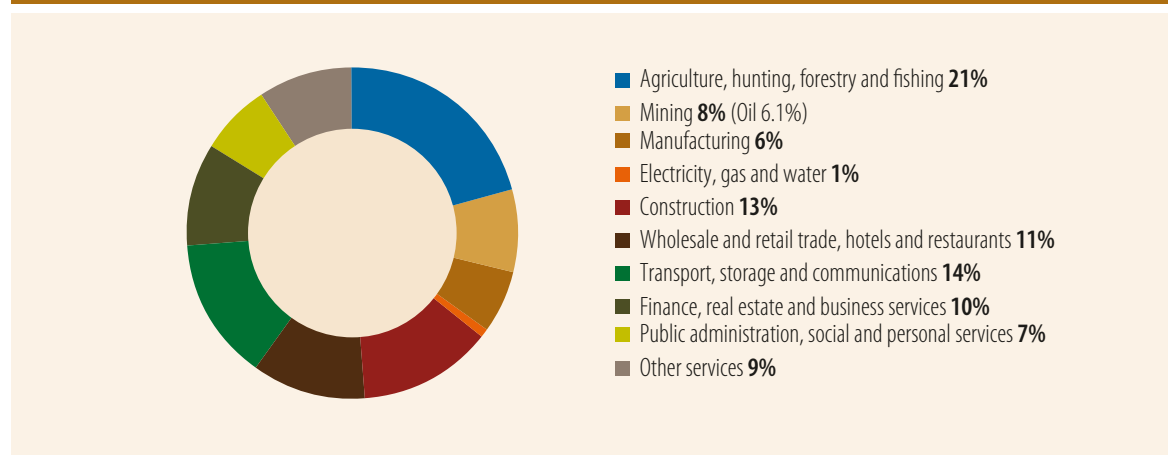
²¹ In 2013 the country exported R103 billion worth of automotive and components to more than 150 countries.

gold and crude oil have been falling, while cocoa prices have experienced some gains. The global price of cocoa beans increased from \$2,275 per metric tonne in January 2013 to \$3,270 per metric tonne in August 2014 (approximately a 44 percent rise); it has since declined to some extent, and stood at \$3,096 in May 2015 (Bank of Ghana, 2014; IMF 2015b; World Bank data) (figure 40).

Impact of the commodity price decline. Ghana's merchandise exports dropped from \$3.6 billion in the first quarter of 2014 to \$2.9 billion in the first quarter of this year. While the dollar value of cocoa beans and products increased by 13 percent, crude oil exports fell by 53 percent with the sharp drop in the price of oil, accounting for

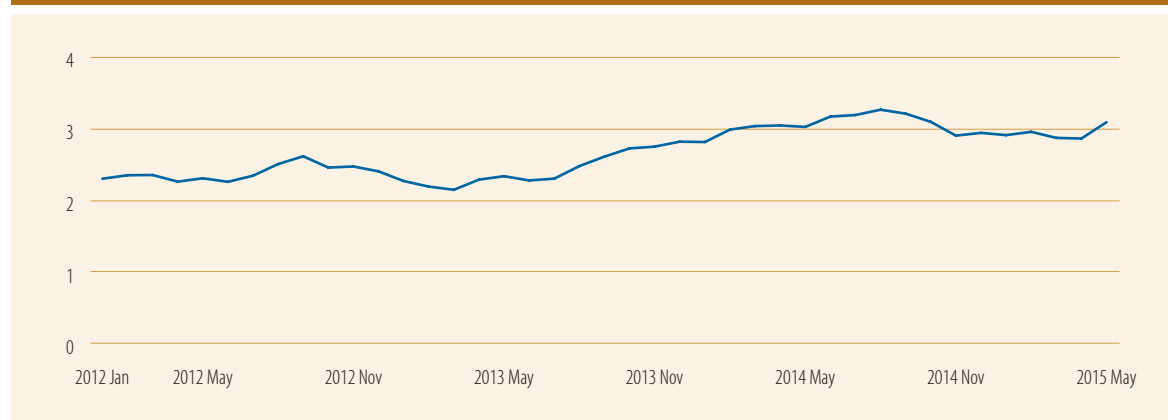
almost three-fourths of the total fall in exports (Bank of Ghana 2015). The value of gold exports has fluctuated over the past year or so: it fell from \$359.4 million in October 2014 to a low of \$187.1 million in March 2015, before settling at \$249.5 million in August 2015.²² However, the current account deficit fell from \$1.1 billion in the first quarter of 2014 to 0.6 billion in the first quarter of this year (figure 41), as a result of some fall in merchandise imports and an improvement in the net services balance. Reserves drawdowns changed little, from \$894 million in the first quarter of 2014 to \$849 million in the first quarter of 2015. Gross international reserves rose to \$3.9 billion in March 2015, about the same level as in March 2014.

Figure 39: Services account for half of Ghana's GDP in 2013 (Rand million)



Source: Ghana Statistical Service (GSS).

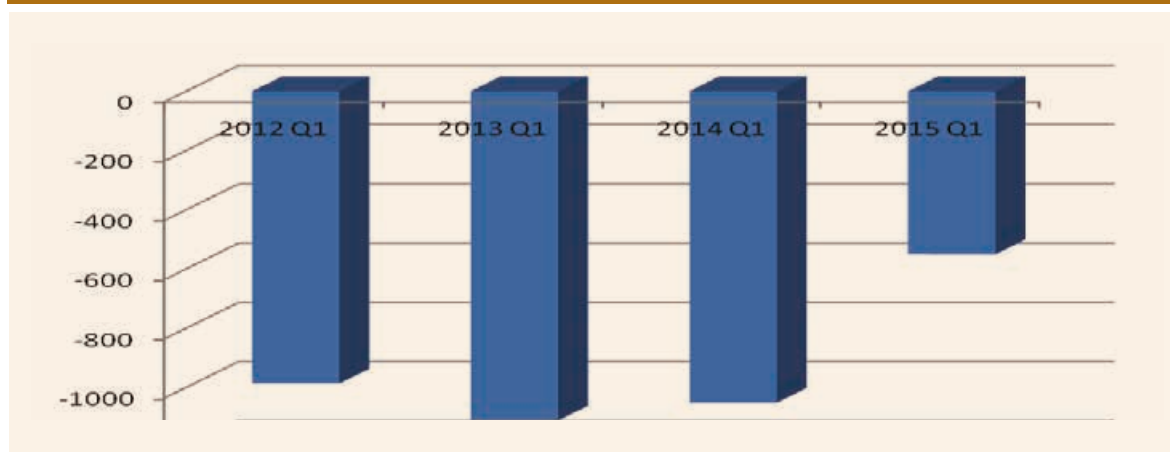
Figure 40: Cocoa price has increased (US\$1,000 per metric tonne)



Source: World Bank data; see www.worldbank.org/commodities

²² Bank of Ghana, Summary of Economic and Financial Data, September 2015.

Figure 41: Ghana's current account deficit has improved, 2012 Q1 to 2015 Q1, US\$ billion



Source: Bank of Ghana, Quarterly Bulletin, Second Quarter 2015, Accra.

The fall in primary commodity prices came when Ghana was facing difficulties in re-aligning its fiscal and trade deficits and reconfiguring the maturity of its debt, which has begun to increase pressures on inflation and interest rates, and put significant stress on the exchange rate.

The oil reference price for the 2015 budget was \$99.38 per barrel and was revised downward to \$52.8 per barrel,²³ which is above the market price of \$45.70 as of 27 August 2015. Based on the new reference crude oil price, the estimate for total petroleum receipts stood at GHS 1.5 billion (1.1 percent of GDP as opposed to the previous estimate of 3.1 percent). As a result, the fiscal deficit position was revised upwards by one percentage point to 7.5 percent of GDP.

Policies. Ghana's fiscal deficit increased in recent years, from about 6 percent of GDP in 2012 to 7.8 percent in 2013. Key contributors to widened budget deficit have been increased spending on wages and salaries, interest payments, subsidies and arrear payments. The Government is committed to fiscal consolidation, with the ultimate objective of reducing the budget deficit to around 5 percent of GDP by 2016. To this end, it is implementing a series of measures to enhance revenue and reduce expenditures, while

identifying ways to mitigate the impact of fiscal consolidation on the poor and on infrastructure investments. At the same time, steps are underway for the Ghana Cocoa Board (Cocobod) to issue energy and cocoa bonds to fund its long-term capital and infrastructure needs.

Ghana signed a three-year Extended Credit Facility (ECF) arrangement with the IMF on 3 April 2015.²⁴ The decision to go to the IMF followed the adoption of various "home-grown" measures to address the macroeconomic challenges.²⁵ Efforts to reduce expenditures included a freeze on new hires, weaning off some state enterprises from the government payroll, streamlining of the payroll and human resource management efforts to reduce "ghost workers".

To sustain medium-term growth prospects, measures are also being introduced in the 2015 budget to reduce vulnerability to external shocks by strengthening the tools for risk management, diversifying and adding value to exports, and supporting local production of imported goods that can be produced domestically. The fiscal framework would also be strengthened to foster medium-term planning and preserve debt sustainability, as well as deepen the structural transformation of the economy.

²³ Hon. Seth E. Terkper, Minister for Finance, Statement to Parliament on the implications of the Fall in the Crude Oil Prices on the 2015 Budget, 12 March 2015.

²⁴ These include hosting a National Economic Forum (NEF May 2014) to build consensus. The Forum produced the Senchi Consensus and a "home-grown" policy framework, i.e. the Ghana Economic and Financial Policies for the Medium Term, 2014-2017.

²⁵ "IMF Approves US\$918 million ECF Arrangement Million to Help Ghana Boost Growth, Jobs and Stability". Press Release No. 15/159, 3 April 2015; see <http://www.imf.org/external/np/sec/pr/2015/pr15159.htm>

4.8 Uganda

The economic context. In November 2014, the Bank of Uganda announced the rebasing of the country's GDP estimates for 2008/09 onwards from the 2002 base year to the new 2009/10 base year, which more closely reflects the current structure of the economy. This revision, in conjunction with the 2014 population census, showed that the economy is about 20 percent larger than previously thought.²⁶ GDP is estimated to have increased by 4.5 percent in 2013/14, up 3.3 percent in 2012/13 (table 9) – partly due to strong public investment and improved regional integration.

Impact of the commodity price decline. Commodity price volatility since 2012 has induced sharp swings in Uganda's export revenues, in particular, a fall in earnings from coffee, the country's

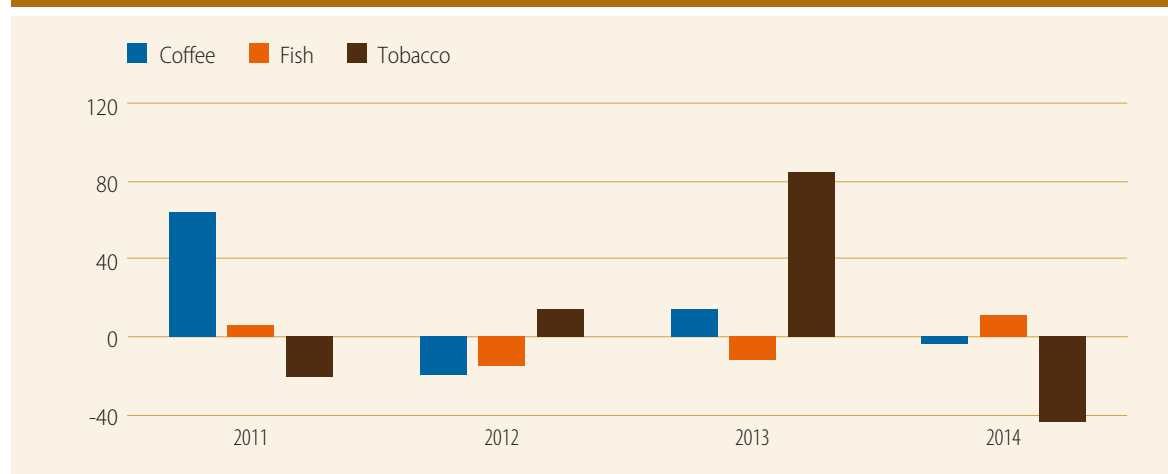
largest commodity export (figure 42). Lower export revenues has led to a steady rise in the current account deficit (abstracting from seasonal patterns), which reached a peak of \$828.5 million during the third quarter of 2014 (figure 43). The annual deficit in 2014 was \$2,570 million, up from \$1,722 million (6.6 percent of GDP) in 2013. The current account deficit in 2014 was accompanied by a smaller deficit in the overall balance of payments of \$222 million. The Ugandan shilling depreciated by around 18 percent over the course of 2014. The depreciation in the context of low or declining export prices is contributing to pressures on the balance of payments, particularly given slow growth in remittances and foreign direct investment from abroad (Bank of Uganda, 2015). Inflation is beginning to rise, from 1.3 percent for the year ending January 2015 to 4.8 percent for the year ending August 2015. At the

Table 9: Percentage change by sector and total GDP (constant 2009/10 prices)

Sectors	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Agriculture, forestry and fishing	3.2	2.9	1.8	1.1	1.5
Industries	7.8	11.4	3.1	4.3	4.3
Services	5.9	12.4	4.9	4.0	4.2
Taxes less subsidies on products	1.1	1.3	15.5	0.5	15.5
Total	5.2	9.7	4.4	3.3	4.5

Source: Bank of Uganda, Quarterly Bulletin (2014).

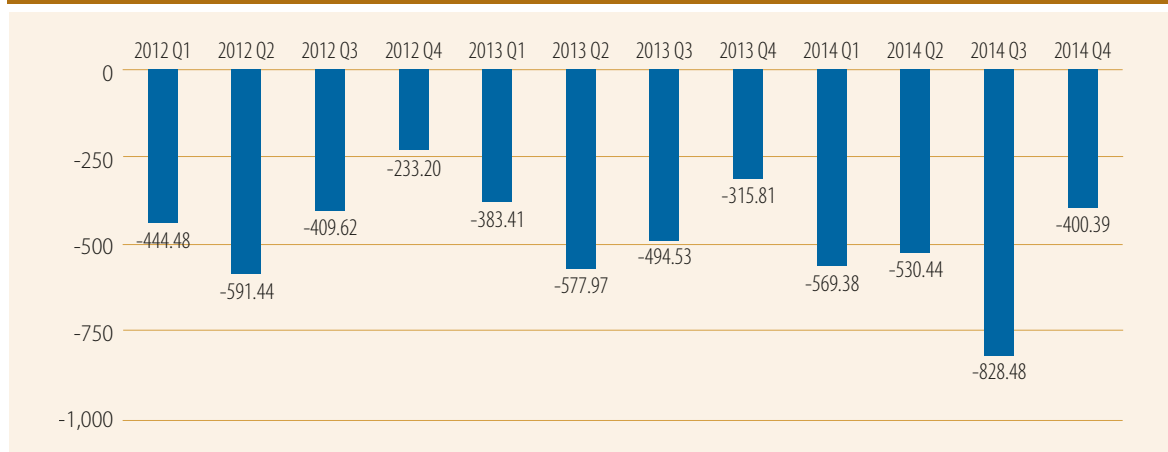
Figure 42: Earnings from Uganda's primary commodity exports declined in 2014 (Rand million)



Source: Bank of Uganda (2015).

²⁶ World Bank website; see <http://www.worldbank.org/en/country/uganda/overview>.

Figure 43: Uganda's current account deficit is rising (US\$ million)



Source: Bank of Uganda, Balance of Payments; see www.bou.or.ug/bou/rates_statistics/statistics.html

same time, the average petrol pump price declined by 10 percent between January and September 2015. To control the price level, the Central Bank rate, which was stabilized at 11.0 percent between July 2013 and April 2015, rose by 100 basis points to 12.0 percent. The overall fiscal balance worsened from 3.6 percent of GDP in 2012/13 to 3.8 percent in 2013/14, and is projected to further worsen to 4.5 and 7.0 percent in 2014/15 and, respectively.

Policies. Some structural reforms have been introduced. The approval of the Public Financial Management (PFM) Act in November 2014, the preparation of the Charter of Fiscal Responsibility (CFR) and the introduction of the Treasury Single Account (TSA) are geared towards improving cash management and ensuring financial transparency and accountability. The pending approval of the amendments to the Bank of Uganda (BoU) Act by the Parliament is another important milestone. Some priority actions for the Government include addressing the ineffective tax policy, poor compliance and removing excessive Income and VAT Acts exemptions.

The Bank of Uganda in its 2015 Monetary Policy Committee (MPC) meeting alluded to the fact that domestic prices will rise further in 2015, even though lower global oil prices and domestic food crop prices may mitigate some of the negative effects. The range of core inflation is 4-6 percent in 2015, which is consistent with the most recent data (see above). Furthermore, the trade deficit continues to widen, and there is the possibility of a reduction in investment in the oil sector if prices

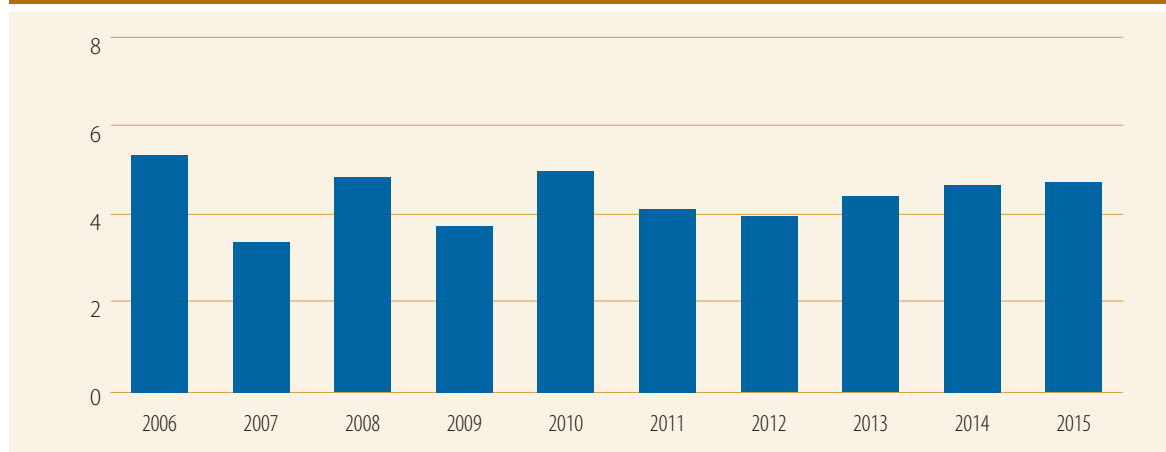
do not recover quickly. Similarly, the Governor of the Bank of Uganda affirmed that public revenues from oil and coffee exports may be lower than expected in the near term. Hence, there is a need for prudent fiscal policies and a reduction in expenditure commitments, including the wage bill. The Government is refocusing the national export development strategy and development initiatives to increase the share of manufactured products in total exports.

4.9 Burundi

The economic context. Burundi experienced moderate economic growth, averaging 4.7 percent annually during 2006-2009. The growth slowed during the 2010-2013 period to 4.2 percent, but then rose from 4.0 percent in 2012 to an estimated 4.8 percent in 2015 (figure 44). The rebound in coffee production, strong momentum in the construction sector, and the implementation of major infrastructure projects, including fiber optics, hydropower and roads, are among drivers of economic growth. Headline inflation decreased from an average of 9 percent in 2013 to 4.5 percent in 2014, helped by falling international oil prices.

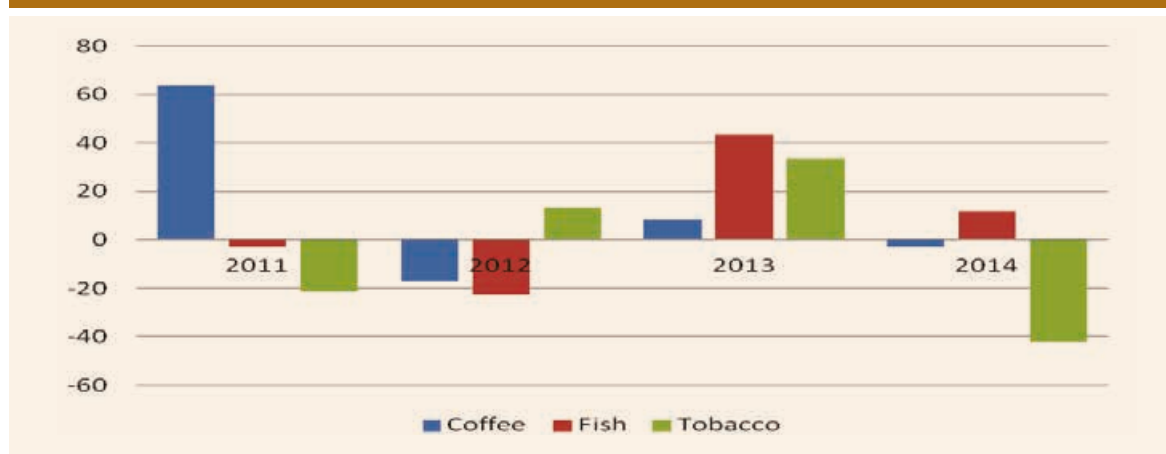
Impact of the commodity price decline. Burundi's export earnings depend primarily on weather conditions and the international prices of coffee and tea, which account for about 90 percent of foreign exchange earnings, although exports contribute a relatively small proportion to GDP. The country has recorded deficits in its

Figure 44: GDP growth is rising in Burundi (%)



Source: IMF data; see <http://www.imf.org/external/data.htm>
 Note: 2015 represents an IMF estimate.

Figure 45: Current account deficit remains high in Burundi (% of GDP)

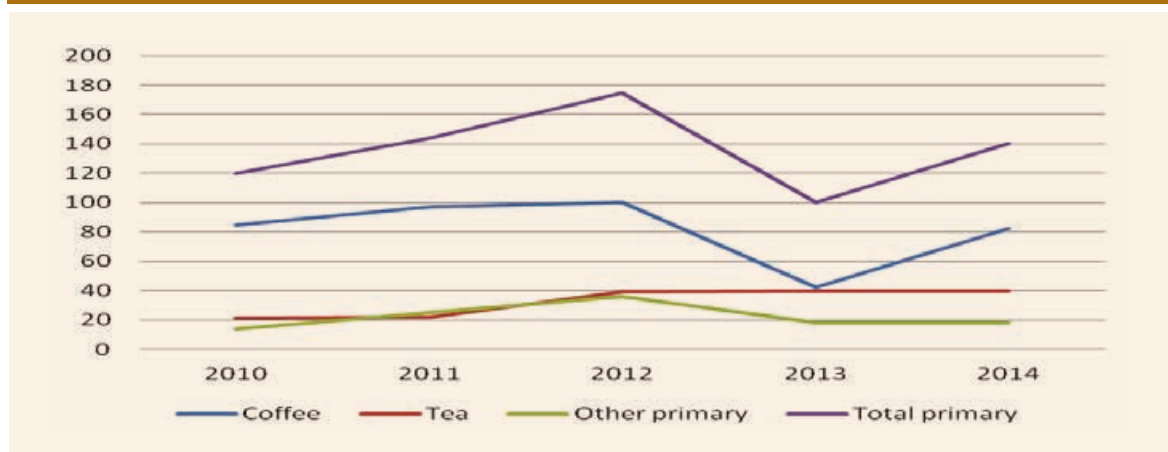


Source: Bank of Uganda (2015).

merchandise trade balance and the current account for almost a decade (WTO 2014). Exports fell by 32 percent (to \$91 billion) in 2013 in the wake of the large fall in global prices of coffee and tea, but recovered to \$130 billion in 2014, when imports were relatively stable at \$801 billion. In 2014, the current account deficit was 17.6 percent of GDP, although the most recent IMF estimate is that the deficit will fall to 13 percent of GDP this year (figure 45). The deficit was financed by FDI, project grants and concessional loans, while the official foreign exchange reserves remained stable at the equivalent of 3.5 months of imports.

Receipts from telecom licences helped reverse the revenue shortfall registered in the first half of 2014, which contributed to reaching the end-year revenue target. The fall in the wage bill (from 7 percent in 2013 to about 6.6 percent of GDP in 2014) helped to put the expenditure under target as well. The budget deficit for 2014, however, exceeded the 1.7 percent of GDP projected in the budget, mainly due to a shortfall in the disbursement of budget support. This accounted for the rise domestic public debt from 13.1 percent of GDP in 2013 to 14.1 percent of GDP in 2014. The financing shortfall was filled by the Central Bank.

Figure 46: Export revenues from primary products have been volatile in Burundi (BIF million)



Source: Central Bank of Burundi.

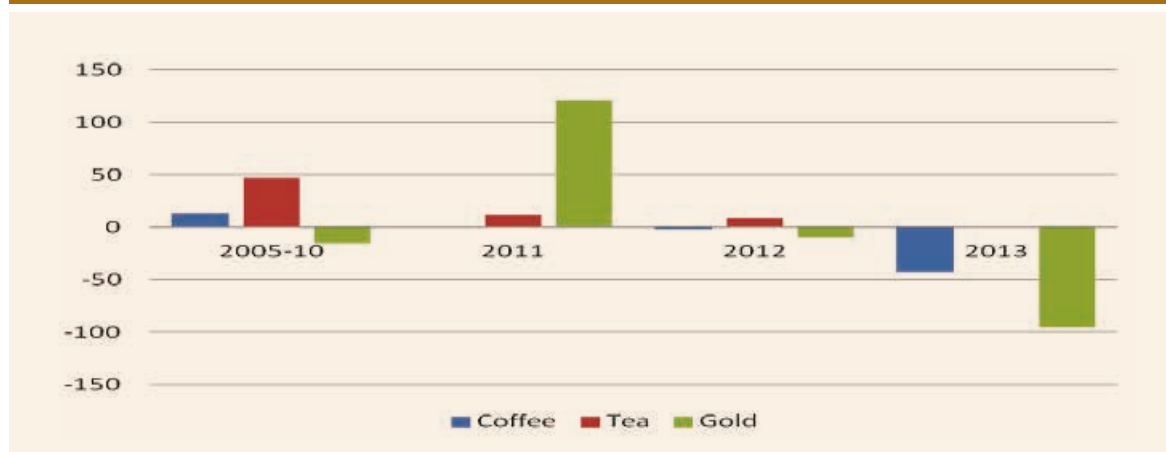
Coffee is Burundi's most important export commodity, accounting for about 46 percent of total export earnings in 2013. Coffee farming plays a vital role, not just in the economy, but also as the major source of income for roughly 600,000 families (about 40% of the Burundian population). Since most coffee in Burundi is produced by small growers who rely on rain for water (rather than irrigation), its supply is very seasonal. Coffee prices have fluctuated sharply over the past few years, dropping from \$6.06/kg (for arabica) in September 2011 to a (monthly average) low of \$2.60/kg in November 2013, then rising to a high of \$4.97 in October 2013, and falling again to \$3.46 in August of this year. Export earnings from coffee (and primary commodities in total) have fluctuated similarly (figures 46 and 47).

Tea is the second largest export crop for Burundi. For a long time, the tea sector was dominated by a single public enterprise, the *Office du Burundais* (OTB). Following the recent liberalization of the sector, a new company, Prothem, entered the market. Tea exports pass through the Kenyan port of Mombasa in their raw state, with low value added. Since the sector's liberalization, efforts have been under way to modernize equipment and improve the quality of the product. The price of tea out of Mombasa declined from \$3.08/kg in late 2012 to below \$2/kg in late 2014, before recovering back to the \$3 range in recent months.

Policies. Burundi remains heavily dependent on aid from bilateral and multilateral donors; foreign aid represents about 42 percent of Burundi's national income, the second highest rate in SSA. However, given the unstable nature of aid flows, the Government has made non-priority spending subject to the receipt of budget support from donors. In light of dependence on volatile aid and primary commodity prices, it is committed to reducing expenditure on non-essential items, placing a firm ceiling on expenditure commitments, and relying on rolling annual budgets to guide expenditure levels. Expenditures declined from 35.9 percent of GDP in 2012 to 35.7 percent in 2013, and are projected to decline further to 34 percent in 2015 (AFDB, OECD and UNDP, 2014d). Hence, in 2013, Burundi managed to reduce its total debt from 35.2 to 31.3 percent of GDP, and its domestic debt from 14.6 to 13.3 percent of GDP.

The Government has continued to open up the economy to the outside world in order to maximize the benefits of its membership of regional economic communities and regional intergovernmental organizations, and to capitalize on its location in the Lake Tanganyika Basin region. Burundi has continued with its gradual integration into the East African Community common market by harmonizing its immigration and labour laws, eliminating non-tariff barriers and completing the protocol on good governance.

Figure 47: Burundi's export revenues from commodities are falling (% change in US\$ million)



Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

4.10 Ethiopia

The economic context. GDP growth in Ethiopia has been quite resounding, rising from only about 2 percent from 1974-1991 to 4.5 percent in 1991-2004, and then to 10.9 percent from 2004-2014. In 2014, GDP increased by 9.9 percent, the 11th consecutive year where growth exceeded 8.5 percent (table 10). The cautious fiscal policy of the general government has been helpful in promoting fiscal sustainability and growth. The public investment-led development strategy has also helped. Growth is expected to remain strong, driven mainly by agriculture and services. Sustained strong economic growth will be underpinned by undeterred promotion of structural transformation, including: ensuring macroeconomic stability and debt sustainability; deepening public sector investment programme and its sustainable financing; and improving export competitiveness and the business climate. Some of the risks that should be heeded include insufficient financing for infrastructure investment in the Growth and Transformation Plan (GTP) (due to the low domestic savings rate), lower prices of main export commodities, and weather-related shocks.

However, despite impressive growth performance since the mid-1990s, Ethiopia remains heavily dependent on primary production (figure 48) and is one of the poorest countries in SSA – even though

poverty fell between 1995 and 2010 by close to the MDGs targets. Gross national income per capita reached \$550 in 2014, still only about one-quarter of the average for the region. According to UNDP's 2014 Human Development Report, the Human Development Index (HDI) for Ethiopia is at 0.435, well below the SSA average of 0.502, and is ranked 173rd out of 187 listed countries. Still, Ethiopia made the fastest progress in the HDI between 2000 and 2014 globally, improving at an annual average of 3.35 percent. The poverty head count ratio at the national poverty line fell from 54.6 percent in 1995 to 36.8 percent in 2010. Pro-poor expenditures (including those financed by external project loans) amounted to more than 12 percent of GDP in 2012/13 and is estimated to remain the same for 2013/14 - 2014/15.

Impact of the commodity price decline. Ethiopia's export earnings from primary commodities basically stagnated from 2011 to 2013 (figures 49 and 50). Coffee (arabica) is the dominant agricultural commodity, accounting for approximately 24.2 percent of the total export earnings. Ethiopia is SSA's largest grower of arabica coffee, with an output of 373,940 MT in 2013, the equivalent of about 51 percent of total coffee output from East Africa. Domestic consumption in Ethiopia is high compared to many African coffee exporters, so the pressure of supplying the domestic market continues to be one of the factors in Ethiopia's fluctuating coffee exports, in

Table 10: Macroeconomic indicators for Ethiopia, 2008-2014

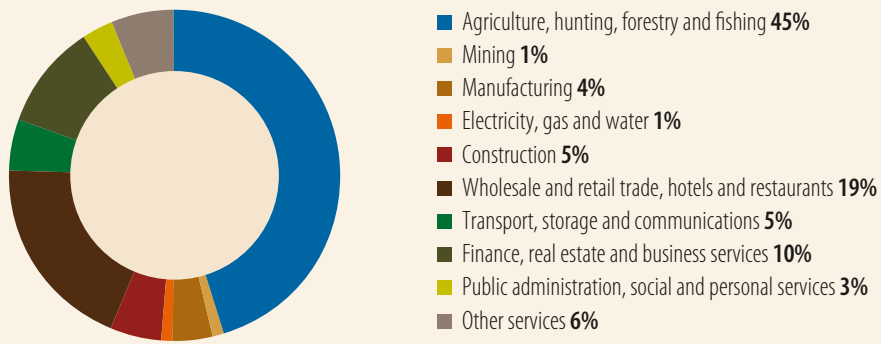
	2008	2009	2010	2011	2012	2013	2014
GNI per capita, Atlas method (current US\$)	280.0	340.0	380.0	390.0	420.0	470	550
GDP (current US\$ millions)	27 067.0	32 437.0	29 934.0	31 593.0	43 311.0	47 525.0	54,798.0
GDP (constant 2000 US\$ millions)	16 972.0	18 466.0	20 784.0	23 107.0	25 105.0	27 739.0	30 495.0
Real GDP growth (annual %)	10.8	8.8	10.6	11.4	8.7	9.8	10.3
Real per capita GDP growth rate (annual %)	8.4	6.5	7.7	8.6	6.0	7.1	7.6
Gross capital formation (% of GDP)	22.4	22.7	23.8	32.1	37.1	35.8	36.9
Gross national savings (% of GDP)	19.2	19.5	20.7	27.2	26.6	27.0	23.2
Agriculture, value added (% of GDP)	50.6	50.8	46.7	45.6	48.8	45.0	42.3
Industry, value added (% of GDP)	11.1	10.4	10.3	10.6	10.3	11.9	15.4
Manufacturing, value added (% of GDP)	4.4	4.1	4.3	3.9	3.7	4.0	4.2
Services, value added (% of GDP)	40.6	41.1	45.1	44.9	41.8	43	42.2
Exports of goods and services (% of GDP)	11.4	10.5	13.9	16.7	13.8	12.5	11.7
General government final consumption expenditure (% of GDP)	9.8	8.9	8.7	10.3	8.3	8.3	7.2
Household final consumption expenditure (% of GDP)	78.5	77.1	76.3	72.4	72.5	69.5	73.1
Imports of goods and services (% of GDP)	30.8	28.7	33.3	31.5	31.6	29.1	29.5
Industry, value added (annual % growth)	10.1	9.7	10.8	15.0	19.6	24.1	21.2
Manufacturing, value added (annual % growth)	9.3	8.6	9.2	9.2	11.8	16.9	11.3
Services, value added (annual % growth)	16.4	14.7	16.7	13.0	9.9	8.8	11.8
Central government, total revenue and grants (% of GDP)	16.0	16.3	17.3	16.9	15.7	15.9	15.1
Central government, total expenditure and net lending (% of GDP)	18.9	17.2	18.9	18.6	16.8	17.8	17.7
Central government, Fiscal Balance (% of GDP)	-2.9	-0.9	-1.3	-1.6	-1.2	-2.0	-2.6

Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; and IMF, World Economic Outlook; see <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx> (2) African Development Bank, Data Portal at: <http://dataportal.afdb.org/default.aspx>

addition to volatility in output and in global prices (Ecobank 2014a). The price of arabica coffee fell from \$5.22/kg in December 2012 to \$2.78/kg in December 2013, and foreign exchange earnings from coffee fell by about \$100 million from 2011/12 to 2013/14. Earnings from oil seeds and vegetables also dropped during this period. Coffee prices recovered to \$4.34/kg in December 2014, and merchandise exports increased by 19 percent in that year, to 8.8 percent of GDP. The rise of Ethiopia's current account deficit, from 6.5 percent of GDP in 2012 to an estimated 10.9 percent in 2015, did not reflect a decline in export receipts; the trade balance remained at about 20 percent of GDP over this period (figure 51).

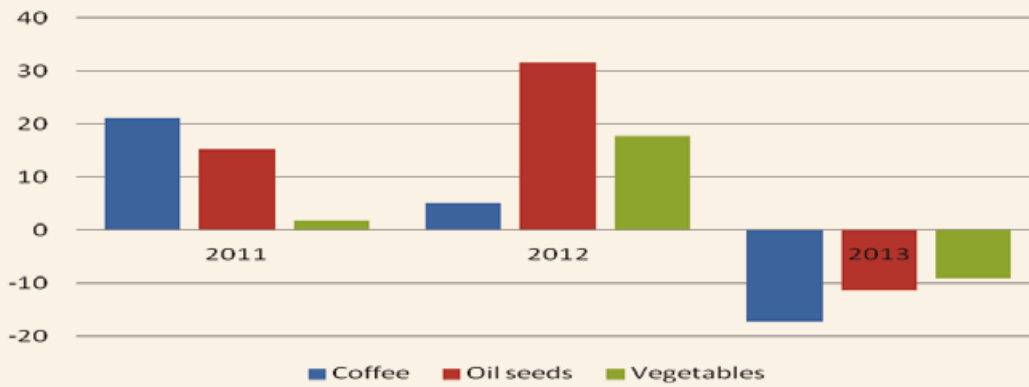
The share decline in the prices and volumes of Ethiopia's main commodity goods (coffee and gold), resulting from a lull in external demand conditions, weakened the trade balance. However, this was offset by enhanced growth in other exports such as oilseeds, pulses, leather products, live animals, and flowers. Demand for imports remained strong, driven by the investment-led economic growth. The public sector-led development strategy associated with a rise in demand for fertilizers, petroleum products, and capital goods is also putting pressure on imports.

Figure 48: Ethiopia's GDP is dominated by agriculture, 2013



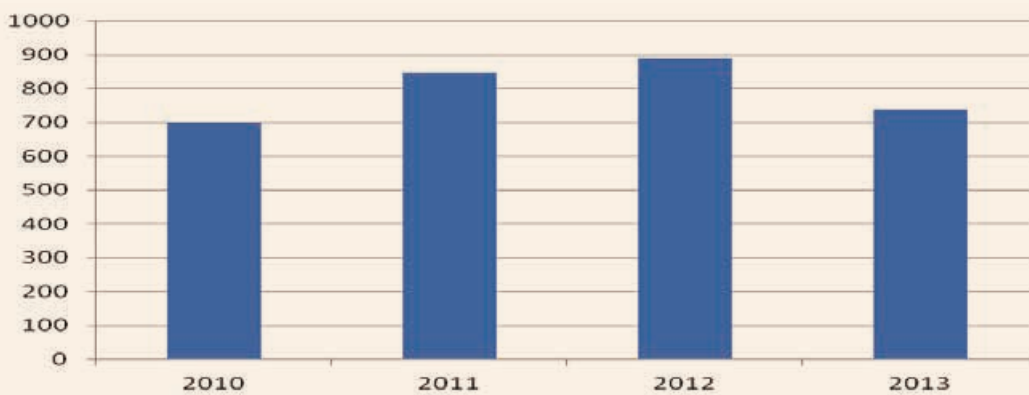
Sources: World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

Figure 49: Ethiopia's export earnings from principal commodities have declined (% change)



Sources: UNCTAD (2015) unctadstat; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Figure 50: Ethiopia's coffee exports have declined (US\$ million)



Sources: UNCTAD (2015) unctadstat; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Figure 51: Ethiopia's current account balance has increased sharply (% of GDP)



Source: AfDB, OECD and UNDP (2014c) and World Bank, World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>

The Government's fiscal policy has also helped to tame consumption spending. Recurrent spending (estimated at 7.4 percent of GDP in 2014) remains lower than capital expenditure (11.0 percent of GDP). The estimated fall in the ratio of tax revenues to GDP (14.6 percent in 2012/13 to 14.1 percent in 2013/14) was due to the Government's investment strategy: state-owned enterprises were allowed to retain earnings for reinvestment instead of paying dividends to the government. This tax ratio is expected to rise to 14.5 percent in 2014/15. The IMF staff estimates the general government budget deficit at 2.7 percent of GDP in 2013/14, compared to 2.0 percent of GDP in 2012/13.

Policies. The Government of Ethiopia, under its Growth and Transformation Programme (GTP), has laid the foundation for a rapid structural transformation and diversification of the economy. The Government's vision is to build an economy based on modern technology with an industrial sector that plays a leading role. The significance of expanding the industrial sector lies in its capacity to help transform other sectors, particularly agriculture. Efforts are currently marshalled through a holistic, comprehensive industrial development policy and incentive packages. Textiles and garment, leather and leather products, and agro-processing have been given due attention, and industrial parks are being established in and around Addis Ababa. A Chinese firm also established the Eastern Industry Zone in 2009/2010.

Government fiscal policy in recent times has become more coordinated with monetary policy to combat inflation; fiscal policy is now focused on strengthening tax collection, while raising pro-poor spending, including investment in physical infrastructure. For instance, the ongoing public financial management (PFM) reforms are yielding results in terms of improvement in the budgetary processes. The adoption of programme-based budgeting and the plan to extend this reform to the regions is commendable. This policy has strengthened cash management, reduced idle cash in the various government accounts and improved the quality of fiscal reporting. The Ethiopian Revenues and Custom Authority's (ERCA) efforts to improve tax collection should be deepened by developing a national compliance management and enforcement strategy. However, the expansionary impulse from public enterprises is contributing to a build-up of domestic and external imbalances and should be cautiously managed.

The Government also is taking steps to promote its diaspora bonds through marketing and awareness-raising campaigns targeted at overseas emigrants. (Ethiopia has two variants, the Millennium Corporate Bond and the Renaissance Bond.) The bonds are now being offered in minimum denominations of \$50 so that many Ethiopians can have access. The Commercial Bank of Ethiopia has agreed to cover remittance fees associated with the purchase of the bonds.

4.11 Zambia

The economic context. A combination of prudent macroeconomic management, market liberalization and privatization efforts, investments in the copper industry and related infrastructure, and a steep increase in copper prices combined with growth in exports helped Zambia achieve an average annual growth of almost 8 percent from 2002-2012. GDP increased by 6.7 percent in 2013 and 6 percent in 2014 (table 11), and is forecast to rise to 7.4 percent 2015 (AfDB, OECD and UNDP 2014i).

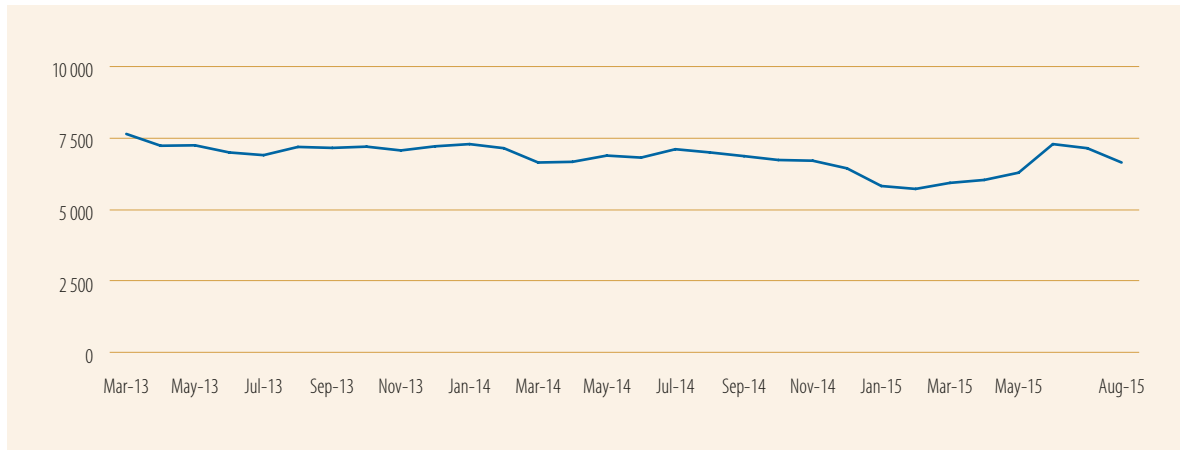
Infrastructure investment, especially in mining, power generation and roads, is planned to support robust growth in coming years. Inflation was 7.8 percent in 2014, up from about 7 percent in the previous year. The tertiary sector, including services such as wholesale and retail trade, restaurants, bars and hotels, transport, storage and communications, financial and real estate services, and community, social and personal services, has dominated the economy since the early 1990s: from a contribution of 43.6 percent in 1990, the services sector's contribution peaked at 56.5 percent in 2013.

Table 11: Macroeconomic indicators for Zambia, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
GNI per capita, Atlas method (current US\$)	970.0	990.0	1,070.0	1,180.0	1,350.0	–	–
GDP (current US\$ million)	14 640.8	12 809.6	20 265.4	23 731.9	24 939.5	26 820.9	30 512.1
GDP (constant 2000 US\$ million)	4 882.7	5 195.3	6 217.2	6 692.0	7 112.9	7 591.3	8 026.4
Real GDP growth (annual %)	5.7	6.4	10.3	7.6	6.3	6.7	5.7
Real per capita GDP growth rate (annual %)	2.9	3.6	7.1	4.4	3.0	3.4	2.4
Gross capital formation (% of GDP)	20.9	21.0	29.9	33.7	37.2	38.6	40.4
Gross national savings (% of GDP)	13.8	25.8	35.8	36.5	37.3	34.3	33.7
Agriculture, value added (% of GDP)	21.1	22.0	21.0	20.1	19.1	19.1	–
Industry, value added (% of GDP)	34.4	34.5	36.9	38.6	41.2	41.2	–
Manufacturing, value added (% of GDP)	10.0	9.8	9.1	8.7	8.6	8.6	–
Services, value added (% of GDP)	0.0	0.0	0.0	–	–	–	–
Exports of goods and services (% of GDP)	35.4	35.0	37.0	38.8	39.4	41.7	42.8
General government final consumption expenditure (% of GDP)	17.4	18.0	9.4	9.7	11.7	12.5	12.1
Household final consumption expenditure (% of GDP)	63.6	58.1	54.6	53.5	52.3	50.0	47.7
Imports of goods and services (% of GDP)	37.3	32.2	30.9	35.7	40.7	42.8	42.9
Industry, value added (annual % growth)	4.1	9.8	8.9	4.4	5.4	235.7	–
Manufacturing, value added (annual % growth)	1.8	2.2	4.2	8.0	11.2	–	–
Services, value added (annual % growth)	7.6	4.2	7.2	7.9	8.6	–	–
Central government, total revenue and grants (% of GDP)	24.1	20.0	19.6	21.6	21.8	21.7	20.8
Central government, total expenditure and net lending (% of GDP)	25.3	23.2	22.6	24.0	24.7	29.0	27.4
Central government, fiscal balance (% of GDP)	-1.2	-3.2	-3.1	-2.4	-2.8	-7.3	-6.6
Money and quasi money (M2) as % of GDP	17.0	14.9	24.2	25.4	27.4	29.7	26.9
Money and quasi money growth (annual %)	31.0	3.8	27.4	24.2	20.0	22.3	17.7
Gross international reserves in months of imports	2.4	5.5	4.4	3.7	4.0	3.0	3.5
Gross international reserves (current US\$ million)	1 095.6	1 892.1	2 093.8	2 324.0	3 042.2	2 683.8	3 078.4

Sources: World Bank World Development Indicators; see <http://data.worldbank.org/data-catalog/world-development-indicators>; and IMF World Economic Outlook; see <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>

Figure 52: Price of copper is falling, March 2013-August 2015 (\$/mt)



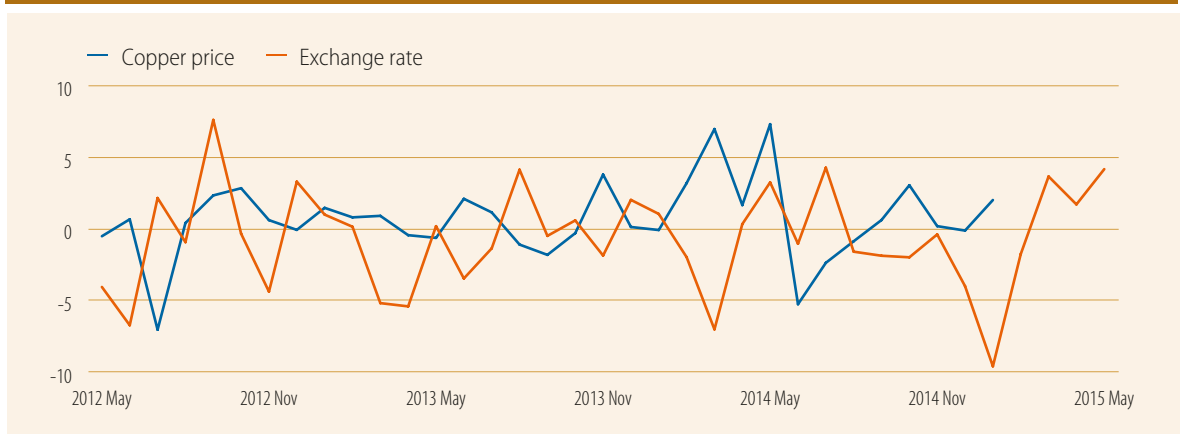
Source: www.worldbank.org/commodities

However, strong economic growth over the past two decades has not resulted in a significant fall in poverty or unemployment levels. Sixty percent of the population lives below the poverty line, and 42 percent are considered to be in extreme poverty. In addition, around 300,000 young people enter the labour market each year in Zambia, but face limited employment opportunities.

Impact of the commodity price decline. Copper remains the heartbeat of Zambia's economy and accounts for 70 percent of export earnings. As a result of intensive restructuring, privatization, and FDI flows to the sector over the last two decades, Zambia has regained its place as Africa's second largest copper producer. However, the price of copper on global markets fell by 11 percent over

the course of 2014, and has stagnated this year (figure 52). The country's current account remains at near balance (albeit down sharply from the surplus of about 6 percent of GDP in 2010) and neither inflation nor the fiscal deficit is expected to increase this year, although the deficit is expected to remain at about 5 percent of GDP, or much higher than a few years ago. Nevertheless, the continuing decline in the price of copper, combined with the downturn in growth in China, which buys half of all of Zambia's copper, has generated considerable anxiety concerning prospects. Copper revenues will be essential to achieve the Government's Vision 2030, which seeks to diversify the economy into tourism, manufacturing and agriculture, with a view to becoming an upper middle-income country.

Figure 53: Kwacha exchange rate has moved with price of copper, May 2012-May 2015 (% change)



Source: World Bank data; see <http://data.worldbank.org/data-catalog/world-development-indicators>

The Zambian kwacha was re-denominated in January 2013 and positively received by public. Through January to December 2014, however, the new kwacha depreciated by more than 15 percent. The currency depreciated an additional 15 percent from December 2014 to May 2015, while the price of copper plummeted sharply early in the year (figure 53).

Preliminary figures for 2014 (released by the Bank of Zambia early this year) suggest that non-mining output grew by almost 7.0 percent. However, output in the mining and quarrying sector is estimated to have contracted by around 1.4 percent, pulling down the overall GDP growth to 6.0 percent – as against the previous forecast of 7.4 percent. Growth in non-mining output was largely driven by the following sectors: transport, storage and communications; construction; financial institutions and insurance; agriculture, forestry and fishing; wholesale and retail trade; and community, social and personal services. Even though Zambia continues to enjoy significant budget support from donors, historical figures show that fluctuations in the global price of copper still exert a huge influence on government revenue and expenditures.

Policies. The Bank of Zambia Monetary Policy Committee (MPC) raised the policy rate by 50 basis points to 12.5 percent in November 2014 and left it unchanged at its February 2015 meeting. The tightening in the policy stance was to support the exchange rate following the fall in foreign reserves, occasioned largely by the declining global copper prices and the reversal of global financial flows. The main areas of the Government's policy focus are creating employment opportunities for the majority

of Zambians (especially youth), improving accountability, and strengthening the fight against corruption. The Government also plans to strengthen fiscal management in an effort to narrow its fiscal deficit. The coming years will therefore require a concerted effort to broaden the tax base with a view to generating more revenues from non-mineral royalties, as well as streamline expenditures, focusing less on recurrent spending and more on priority development areas. Private sector competitiveness will be strengthened, given the pressure from demand for higher wages, especially for skilled labour, which is in short supply. Furthermore, well-coordinated policy measures for enhanced agribusiness and increased processing of agricultural products are being pursued.

Some strategic initiatives have been launched to promote economic diversification. First, the introduction of the Value Chain Cluster Development Programme, which is designed to promote local value addition, is supporting more than 1,800 projects in activities such as mango juice production and processing of fish, rice, dairy, cotton, and honey and forestry products. Second, targeted incentives for the Multi-Facility Economic Zones is also helping to attract investment and create more jobs. Third, Government is planning to recapitalize the Development Bank of Zambia and the National Savings and Credit Bank so that by 2016 they will be able to provide affordable financing to SME's. Finally, the public procurement guidelines are being revised to support local manufacturers. For instance, from 1 September 2015, it became mandatory for all public sector organizations to procure locally manufactured goods for all contracts that are valued at K3M or less.



Source: Made in Africa: Green and ginger tea from Ethiopia. Photo credit: UNDP.



One of the longest train lines in the world, the Sishen-Saldanha iron ore line, near Dwarskersbos Langebaan, South Africa, spans 861 km and carries trains of over 40,000 tonnes. Photo credit: jbdodane.

Chapter V

Turning the commodity price cycles to economic opportunities in Africa

Turning the commodity price cycles to economic opportunities in Africa

5.1 Emerging Lessons

An important lesson of economic history is that the “resource curse” is more a challenge than an inevitable fate. Many commodity-dependent countries have achieved very substantial increases in incomes (e.g. the rich oil exporters of the Middle East) and more diversified production structures (e.g. the United States at the end of the 19th century). Indeed, commodity resources, if managed wisely, can generate the savings required for investment in years of bursts in other sectors and in human development. This requires pro-active policies to manage expenditures over the commodity price cycle, rather than relying on short-term reactions to changes in revenues as they occur.

Beyond general efforts to strengthen governance, improve the efficiency of public expenditure allocation, and strengthen the regulatory regime, there are a number of steps that governments can take to ensure that resource wealth results in more rapid growth. Governments in commodity-dependent economies can structure contracts with mining companies to reduce the amplitude of changes in revenues as prices change, for example through profit-sharing arrangements or linking tax rates to price changes. Governments also can use forward or futures markets to hedge the risks of commodity price swings.

Macroeconomic policy in countries dependent on minerals or fuels exports can be adjusted in light of commodity price developments. One approach is to set maximum limits on the fiscal balance depending on the deviation from trend of key commodity prices (see Frankel 2012b

The right policies can generate growth based on resource wealth.

for the example of Chile), although such fiscal rules can limit governments’ ability to cope with shocks other than those arising from changes in commodity prices (Welham, Hedger and Krause 2015). Exchange rate policy can be targeted towards accumulating reserves during booms and allowing reserves to decline during busts. Institutional arrangements can be adopted that require governments to increase savings during booms and spending during busts.

Sovereign wealth funds are used to invest a share of commodity revenues when prices are above some long-run average, with the goal of eliminating government discretion on the amount to be saved and improving the return on investments compared to accumulating reserves at the central bank. The Pula sovereign wealth fund has facilitated Botswana’s sustained success in macroeconomic management and rapid growth, and appears to have been associated with better governance and institutional quality (Tsani 2014). The most useful models of sovereign wealth funds for Africa are those that promote long-term savings and stabilization objectives simultaneously. The management of such funds should be able to effectively regulate collection, utilization and investment of resources accruing from natural wealth.

Some non-African countries have used sovereign wealth funds to effectively manage their earnings from commodities. For example, Chile's fund has been effective in saving earnings from copper to smooth adjustment to price volatility (Besada, Lisk and Martin 2015). The Timor-Leste Petroleum Fund relies on a formula to calculate the sustainable income that can be transferred to the government budget each year and has been successful in managing oil revenues in a sustainable manner (McKechnie 2013). Norway's limits on budget transfers from its oil revenues through a sovereign wealth fund have bolstered fiscal discipline and ensured the sustainable exploitation of reserves. However, Norway's conservative policies are aimed at ensuring adequate pensions for an aging, high-income population. This approach may not be a good model for African economies, which need to support investment to boost growth and capitalize on rapid population increases (Saibu 2015).

Policies also can address the tendency for commodity dependence to impair incentives for the development of tradeables production. Governments can encourage the development of local services and manufactures firms by conditioning multinationals' access to natural resources on the establishment of linkages with the domestic economy. The careful design of local content requirements, as in Nigeria for example, can achieve a useful balance between the short-term efficiencies reaped by reliance on foreign contractors and the long-term gains from developing local industries. Efforts to target infrastructure investment, institutional changes and regulatory reforms to the needs of firms involved in tradeables, particularly manufacturing, could help compensate for the tendency towards real exchange rate appreciation in commodity-dependent economies.

Institutional arrangements can reduce the role that corruption and rent-seeking has played in lowering governments' return on natural resource projects and in the allocation of these benefits. Governments can adhere to international standards for transparency, for example, the Extractive Industries Transparency Initiative, provisions of the U.S. Dodd-Frank law and EU legislation, the Kimberly Process Certification

Scheme, and the African Mining Vision. Independent agencies, such as monitoring boards and accounting firms, can be designated to review the terms of contracts. NGOs can monitor the operations of domestic institutions and foreign firms to limit collusion between foreign firms and government officials in the design of contracts, environmental damages, misallocation of funds, and human rights abuses (see, for example, Sagebien and Lindsay 2011).

Finally, high volatility places a premium on flexibility in labour and product markets, and robust financial services to minimize the transitional costs as resources shift between sectors (Van der Ploeg and Venables 2011). Thus, labour market rules that tie workers to their current jobs (e.g. seniority benefits and the lack of portability of pensions or health insurance), price controls, restrictive financial sector policies that unnecessarily limit banks' ability to intermediate funds efficiently, and other limits on firms' ability to shift resources between activities can slow necessary adjustments to the shocks that tend to affect commodity-dependent economies.

Impact of the commodity price decline. Projections for improved economic growth for 2014 and 2015 were based on the assumption that oil exports would reach \$62.9 billion in 2014 and \$67.4 billion in 2015, with an average oil price of \$98 per barrel and strong FDI. These forecasts are now being revised downwards in the wake of the dramatic downturn in oil prices since mid-2014, with public investment in infrastructure as the major contributor to the re-estimated growth figures. The August 2015 IMF estimate for Angola's economic growth for 2015-2016 is around an average of 3.5 percent a year.

5.2 Key policy recommendations

Vigorous, pro-active policies are essential to achieve growth and human development in commodity-dependent economies. A key priority is ensuring that investment and consumption levels are based on sustainable levels of income so that booms and busts in commodity prices do not result in excessive macroeconomic instability. Fiscal, exchange rate, and monetary policies

should be adjusted to improve savings during booms so that adequate resources are available to sustain expenditures once commodity prices turn down. The waste of resources witnessed in many commodity-dependent economies could be limited by maintaining rigorous standards for public sector investment projects in times of booming revenues and avoiding inefficient subsidies that are difficult to eliminate. Institutional arrangements, such as fiscal rules that allocate a share of revenues to savings during booms and sovereign wealth funds that manage the financial assets generated by resource exports, can help support more stable economic policies.

Botswana has managed to secure long-term development through an improved management of its resource wealth. An important lesson for Africa is the urgent need to adopt a model that promotes long-term savings and stabilization objectives simultaneously. For such funds to be linked to long-term growth and development, it is crucial to effectively regulate collection, utilization and investment of resources accruing from natural wealth.

Governments also can share the risks of oil and minerals production with extractive industry firms through appropriate contractual terms (for example profit sharing agreements or linking taxes with price changes), or hedge these risks in forward or future markets. Particular attention should be paid toward strengthening fiscal policy, including improvements in revenue generation and in the quality of public expenditures.

Policies also should be directed at building backward and forward linkages that can increase the benefits of extractive industries for the domestic economy. Local content rules can promote the participation of domestic firms in providing inputs to extractive industries, but should avoid overly ambitious requirements that can lead to excessive pricing or poor quality. Governments can target infrastructure investments and other incentives to support domestic production. For example, the transport infrastructure devoted to carrying minerals and oil to ports should be built and regulated so that domestic firms can have access.

Steps to improve the diversification of production could include: promoting manufactures by establishing free trade and industrial zones; improving the capacity for domestic firms to participate in global value chains, for example through subsidizing training; promoting exports through assisting firms in establishing links with foreign markets, including the negotiation of free trade agreements and expanding participation in regional trade groups; and structuring tax policies to encourage FDI and provide some protection for processing industries. South Africa provides a good example of successful export diversification.

All of these measures will require strong and transparent public institutions. The concentration of wealth in oil and minerals, whether in private or public hands, has a tendency to encourage rent seeking and corruption. This diverts economic resources to non-productive activities and often results in oil and mineral wealth being transformed into capital flight rather than productive investments. While international programmes such as the Energy Intensive Transparency Initiative can help to promote transparency, ultimately this is the responsibility of the Government and the local community. The examination of the accounts of extractive industry firms by external watchdogs and greater participation in economic decision-making by local organizations can help to promote transparency.

5.3 How can UNDP help African countries manage primary commodity price booms and busts?

UNDP can help boost intra-African and intercontinental trade. In collaboration with the African Union, UNDP could provide a platform for African governments to confront the problems inherent in overlapping memberships in different regional trading blocs and reduce barriers to cross-border trade in Africa and the complexities associated with regulatory procedures. UNDP could also help improve African economic ties to the more rapidly-growing emerging markets; this was the aim of the first International Conference on the Emergence of Africa, held in March 2015, in Côte d'Ivoire.

UNDP, in conjunction with the International Financial Institutions (IFIs), could provide technical assistance to strengthen macroeconomic management.

Another approach is to collaborate with the Forum of Africa China Cooperation (FOCAC), the Brazil, Russia, India, China and South Africa (BRICS) operational headquarters, as well as other multilateral and regional agencies in order to explore the potential for the export of processed goods. A step in the right direction, which UNDP could readily support, is the establishment of a development finance institution in 2014 by BRICS. UNDP's role in facilitating the Tokyo International Conference on African Development (TICAD) since its inception in 1993 is another effort in this direction.

UNDP, in conjunction with the International Financial Institutions (IFIs), could provide technical assistance to strengthen macroeconomic management. UNDP could encourage the development of sovereign wealth funds to improve the inter-temporal allocation of resources from commodity exports. Another promising area is the issuance of diaspora bonds to capitalize on the \$67.1 billion in remittances received by African economies (in 2014, according to AfDB, OECD and UNDP 2015), which could provide access to a steady source of financing and potentially improve credit ratings on a country's sovereign debt (as in Israel and some countries in Latin

America). The development of data and modelling capacity could strengthen macroeconomic management in Africa and provide early warning signals of impending external or internal shocks. UNDP-RBA, in collaboration with AfDB and the United Nations Economic Commission for Africa (UNECA), could contribute to capacity building in the statistical agencies so that reliable data could be collected and disseminated for analysis and forecasting. This study is also aimed at documenting and sharing Africa's experiences on how the continent is managing the primary commodity price booms and busts.

UNDP could set up, with other international agencies and institutions such as Western Union, MoneyGram and other reputable international banks, structures that could facilitate the tracking and coordination of remittances from African migrant workers. Encouraging more remittances through formal channels and reducing the prices of remittance transfers could increase remittance inflows and help spur financial sector development.

UNDP could help strengthen human resource development in the context of managing external shocks. UNDP, through its policy advisory services and programmatic interventions, could assist countries to develop comprehensive and targeted national manpower plans and strategies for human resource development. Efforts might include the development of skills databases and labour market information services, and steps to facilitate tripartite engagement between governments, industry and tertiary/vocational training institutions in terms of regular curriculum development and review towards meeting and matching skills requirements in the labour market.

UNDP could help improve the diversification of production. UNDP could contribute to efforts to link African resource exporters to global value chains through technical assistance in improving financing for small-scale enterprises. The Industrial Development Corporation (IDC) of South Africa, a government-owned corporation devoted to developing domestic industrial capacity, is doing a good job in this regards. For example, IDC played an important role in developing South Africa's petro-chemicals, minerals processing, fabricated

UNDP could help strengthen human resource development in the context of managing external shocks.

metals, agriculture, clothing and textiles industries, and has recently expanded into investments in other African economies; UNDP could readily tap into its expertise.

UNDP could work with African governments to deepen fiscal space. UNDP's partnership with the Organisation of Economic Co-operation and Development (OECD) on the Tax Inspectorate Without Borders initiative is helping countries to strengthen taxation of multinational companies, which has become quite complex in recent times, particularly related to transfer pricing and tax havens.

UNDP, in conjunction with UNCTAD and WTO, could support training of private entrepreneurs and government officials in price negotiations (e.g. Botswana and Angola could provide lessons in negotiations with mining companies). In this area, UNDP could support ongoing efforts by AfDB and the United Nations Institute for Training and Research (UNITAR). UNDP's partnership with other pan-African institutions on the African Mining Vision could also focus on helping countries to renegotiate mining contracts.

Finally, UNDP could provide technical and other advisory services to strengthen government agencies involved in managing the production and external trade of commodities. One major implication of dependence on primary commodities, especially the extractives, is the prevalence of rent seeking and corrupt practices across many countries. For instance, the Nigerian National Petroleum Corporation (NNPC) and its affiliated agencies have been identified recently as one of the most corrupt and inefficient parastatals in the country, which has brought them under the search light of the current administration. Human rights organizations, NGOs and CBOs in respective countries could also be empowered by UNDP to serve as watchdogs/whistle-blowers where issues of corruption and mismanagement of resources are concerned. They could also serve to educate and enlighten the populace on their rights and responsibilities during elections, and rights to hold leaders accountable for economic governance and management. UNDP could work with the the African Peer Review Mechanism (APRM) of New Partnership for Africa's Development (NEPAD), which has been doing some excellent work in this area.

UNDP could help improve the diversification of production.



Coffee, a common primary commodity in Africa, is frequently traded on international trading floors. Photo credit: UNDP.

UNDP could help improve the diversification of production.



A 2.5 km long train at an Ore Port in Nouadhibou, Mauritania. Photo credit: Agron Dragaj.

Chapter VI

Conclusions

Conclusions

This report has reviewed the long commodity price cycle since the beginning of this century, the challenges raised for commodity-dependent economies in Africa, the policies many of these countries have undertaken to cope with commodity price volatility, and key policy recommendations going forward.

Many African economies remain heavily dependent on primary commodities, which account for more than 60 percent of merchandise exports in the 38 African countries with recent data. As a result, economic developments in many African countries are closely tied to the commodity price cycle. Most countries' currencies are tied to the prices of their main primary commodity exports, for example, the naira (Nigeria) to oil, the rand (South Africa) to gold, and the kwacha (Zambia) to copper. Also, most indicators of economic activity, including fiscal and current account balances, GDP growth and monetary developments, tend to move with changes in commodity prices.

Commodity-dependent economies face high levels of uncertainty. International commodity prices, over which most African economies have little or no control, tend to move in long cycles and can be highly volatile over the short term. High prices may persist for many years but then drop precipitously, as has occurred over the past decade and a half. It is extremely difficult to forecast prices accurately, and in particular to distinguish short-term changes in prices from shifts in long-term cycles. Thus, determining whether current levels of expenditures are sustainable over the long term is a perilous exercise. This difficulty points to the tension between the need to adopt conservative policies to guard against excessive instability and the need to provide the investments required for long-term development in desperately poor countries.

Many countries have failed to achieve adequate rates of economic growth and improvements in human development despite considerable natural

resources. Commodity dependence can impair growth by encouraging corruption, increasing macroeconomic instability, and reducing incentives for potentially higher-productivity activities in manufacturing.

Nevertheless, achieving rapid development through the exploitation of primary commodities is possible, given vigorous policy actions during booms. Maintaining an appropriate level of savings to cushion the inevitable fall in prices, combined with steps to ensure efficient expenditure allocation despite the rapid inflow of foreign exchange would help avoid the extreme declines in production and welfare that have plagued African economies during the periodic downturns in international commodity prices. This is difficult, but not impossible, as shown by a few countries that have managed their commodity resources wisely. For example, South Africa's industrial policies have achieved considerable economic diversification and export growth, despite the country's substantial natural resources.

While growth and development in African economies are largely driven by the policies and conditions in those economies, the international community can support government efforts to manage the commodity price cycle. Many African economies are dependent on firms located in the industrial world for the massive financial and technical resources required to exploit natural resources efficiently. Industrial country governments can help ensure that these firms adhere to strict standards concerning transparency, the treatment of populations in areas where resources are located, and environmental standards. Donors also can provide financial resources and technical assistance directly to governments to support the sustainable development of Africa's natural resources. UNDP is well-placed to participate in international efforts to support development in commodity-dependent African economies.

Annex: Data

Table A1: Number of products in export basket and concentration indices for SSA Countries, 1995-2013 – Part 1

Country	1995		2000		2005		2012		2013	
	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index
Angola	31	0.8951	45	0.8816	71	0.9639	91	0.9663	82	0.9677
Benin	57	0.6682	67	0.5875	85	0.2841	118	0.2722	120	0.2693
Botswana	132	0.7056	132	0.6465	136	0.7848	165	0.7889	165	0.7891
Burkina Faso	58	0.5377	88	0.5233	86	0.5433	141	0.5301	135	0.5264
Burundi	19	0.5816	13	0.6769	17	0.4956	48	0.4447	56	0.3599
Cameroon	110	0.3199	98	0.4361	143	0.3486	172	0.3871	191	0.4228
Cape Verde	23	0.3667	28	0.3630	21	0.4637	24	0.3979	29	0.4653
Central African Republic	34	0.4049	27	0.6837	31	0.3795	55	0.3487	47	0.3561
Chad	19	0.7089	24	0.7280	53	0.9144	77	0.8049	70	0.9167
Comoros	10	0.6247	7	0.7558	15	0.5262	5	0.5355	5	0.5300
Congo, Rep.	44	0.7600	67	0.6650	86	0.7958	126	0.8317	127	0.8146
Côte d'Ivoire	151	0.3423	164	0.3171	161	0.3821	159	0.3379	187	0.2991
Dem. Rep. of the Congo	68	0.5250	52	0.5983	94	0.4041	96	0.4824	91	0.5743
Djibouti	54	0.1195	62	0.1154	54	0.2999	90	0.2468	86	0.1944
Equatorial Guinea	11	0.4473	16	0.7990	33	0.7398	39	0.7393	36	0.7423
Eritrea	42	0.3270	39	0.2586	46	0.6101	52	0.5851	58	0.3879
Ethiopia	25	0.6176	27	0.5043	52	0.3612	118	0.3596	150	0.3310
Ethiopia (. . . 1991)	–	–	–	–	–	–	–	–	–	–
Gabon	61	0.8069	73	0.7357	83	0.7534	136	0.7538	136	0.7549
Gambia	16	0.6016	26	0.3608	32	0.2519	57	0.2526	51	0.2489
Ghana	124	0.3606	131	0.3201	170	0.3881	199	0.3943	228	0.3860
Guinea	45	0.6165	51	0.5793	49	0.4826	98	0.5122	87	0.4868
Guinea-Bissau	9	0.5004	9	0.5855	9	0.9354	14	0.9372	16	0.9365
Kenya	208	0.2272	192	0.2684	226	0.2016	237	0.2033	237	0.1906
Lesotho	31	0.3614	32	0.3881	46	0.4727	35	0.4701	33	0.4653
Liberia	21	0.8012	28	0.5625	8	0.3846	38	0.3730	31	0.3694
Madagascar	75	0.2288	103	0.2588	120	0.2654	142	0.2420	176	0.1954
Malawi	70	0.6561	71	0.6270	69	0.4369	145	0.4713	117	0.4684
Mali	42	0.5738	105	0.6345	119	0.5735	132	0.5249	161	0.5328

Source: UNCTAD (2015), unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=,p,15912

Table A1: Number of products in export basket and concentration indices for SSA Countries, 1995-2013 – Part 2

Country	1995		2000		2005		2012		2013	
	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index	Number of product	Concentration Index
Mauritania	38	0.5259	26	0.4719	37	0.4317	62	0.4574	78	0.4818
Mauritius	109	0.3584	118	0.3646	166	0.2407	180	0.2384	185	0.2474
Mozambique	75	0.3507	90	0.2982	104	0.3706	139	0.2916	146	0.2627
Namibia	185	0.3354	170	0.3208	193	0.2393	200	0.2764	201	0.2564
Niger	59	0.4039	59	0.5953	99	0.3750	96	0.3551	86	0.4690
Nigeria	168	0.8534	132	0.9240	191	0.7858	210	0.7668	229	0.7722
Rwanda	17	0.6007	19	0.4370	39	0.4817	92	0.3994	97	0.3564
Saint Helena	27	0.5343	43	0.3099	36	0.4490	27	0.3979	22	0.4115
Sao Tome and Principe	34	0.4915	22	0.3751	19	0.4233	23	0.4724	30	0.6471
Senegal	132	0.2191	142	0.2323	180	0.2331	196	0.2278	208	0.1925
Seychelles	21	0.4646	23	0.5708	42	0.5166	70	0.5081	80	0.4889
Sierra Leone	42	0.2777	27	0.5335	108	0.2747	116	0.3108	116	0.4357
Somalia	21	0.7022	33	0.6479	42	0.5543	29	0.8432	23	0.8998
South Africa	255	0.1140	255	0.1151	256	0.1813	253	0.1818	254	0.1718
Sudan	–	–	–	–	–	–	98	0.5248	120	0.6837
Sudan (...2011)	45	0.3015	77	0.4790	75	0.8020	–	–	–	–
Swaziland	181	0.2517	173	0.2253	182	0.2452	183	0.2190	186	0.2197
Togo	99	0.3602	103	0.2933	142	0.2366	124	0.2042	116	0.1837
Uganda	66	0.7053	86	0.3758	142	0.2244	191	0.1830	200	0.1803
United Republic of Tanzania	81	0.2645	119	0.2177	173	0.2306	220	0.1825	217	0.1990
Zambia	106	0.7564	119	0.4437	123	0.7082	180	0.6320	195	0.5874
Zimbabwe	204	0.2275	193	0.2794	171	0.2398	186	0.2671	181	0.2601
Sub-Saharan Africa	259	0.2113	259	0.3230	260	0.4390	259	0.4283	259	0.4210
Sub-Saharan Africa excluding South Africa	256	0.3426	258	0.4901	258	0.5907	257	0.5671	257	0.5570

Source: UNCTAD (2015), unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Table A2: Principal commodity exports and their share in total exports – SSA countries, 2012

Country	Principal export			Share of export			Principal commodity as a % of total exports
	1	2	3	1	2	3	
Algeria	Petroleum	Natural gas	–	60	30	–	99
Angola	Petroleum	Pears	–	98	1	–	99
Botswana	Diamond	Nickel ores	Meats	75	14	4	93
Burkina Faso	Cotton	Gold	Oil seeds	44	35	9	88
Burundi	Coffee	Tea and mate	Gold	61	12	10	83
Cameroon	Petroleum	Cocoa	–	53	16	–	69
Chad	Petroleum	Cotton	–	97	2	–	99
Congo, Rep.	Petroleum	Forestry products	–	84	4	–	88
Côte d'Ivoire	Cocoa	Petroleum	–	39	32	–	71
Ethiopia	Coffee	Vegetables	Oil seeds	30	19	18	67
Gabon	Petroleum	Forestry product	Ores	77	12	8	97
Ghana	Cocoa	Gold	Ores	49	14	10	73
Guinea	Aluminium	Petroleum	Gold	51	17	10	78
Kenya	Tea	Crude vegetables	Vegetables	27	21	9	57
Libya	Petroleum	Natural gas	–	89	8	–	97
Malawi	Tobacco	Tea	Sugar	65	8	7	80
Mali	Gold	Cotton	Animals	59	30	4	93
Mauritania	Iron ores	Fishery products	Petroleum	45	26	13	84
Nigeria	Petroleum	Natural gas	–	89	5	–	94
South Africa	Platinum	Coal	Iron ores	21	13	11	45
Uganda	Coffee	Fishery	Tobacco	30	13	17	60
Zambia	Copper	Ores	–	85	2	–	87

Source: UNCTAD (2012).

Table A3: Primary commodity exports' share in total exports and real GDP: all African countries (%) – Part 1

Country	primary comm. export as % of total exports			primary comm exports as % of R al GDP		
	1995	2005	2013	1995	2005	2013
Algeria	97.0	99.0	99.1	13.4	44.2	51.6
Angola	99.4	99.7	99.9	24.3	73.3	99.7
Benin	95.4	91.5	90.4	14.2	12.1	22.7
Botswana	84.6	93.6	92.8	28.1	41.8	50.9
Burkina Faso	91.5	93.4	92.3	8.6	8.0	23.4
Burundi	97.9	95.5	75.6	9.5	5.0	3.5
Cameroon	93.3	90.5	87.1	13.1	15.6	16.6
Cape Verde	29.5	63.7	78.4	0.5	1.0	3.4
Central African Republic	91.0	93.9	91.1	12.5	8.9	8.5
Chad	91.6	97.3	99.4	8.6	51.0	51.4
Comoros	60.7	73.0	45.6	2.1	2.3	2.0
Congo, Rep.	95.3	99.0	95.4	23.5	84.6	99.4
Côte d'Ivoire	85.3	74.7	82.7	22.0	31.7	47.7
Dem. Rep. of the Congo	98.7	95.8	94.5	21.7	32.0	51.2
Djibouti	45.4	40.7	65.0	1.1	2.3	7.0
Egypt	64.3	58.5	56.0	3.6	8.0	12.0
Equatorial Guinea	93.7	95.4	96.2	16.0	93.5	107.9
Eritrea	67.6	40.0	87.8	6.3	0.4	21.7
Ethiopia	88.8	94.5	88.9	5.3	7.2	9.1
Gabon	98.1	95.9	95.7	30.4	51.4	72.5
Gambia	92.5	73.1	76.7	3.5	0.9	8.1
Ghana	90.9	86.6	89.1	14.9	15.4	39.4
Guinea	91.9	98.6	97.5	31.8	26.7	37.3
Guinea-Bissau	97.5	98.9	99.3	4.1	15.1	26.1
Kenya	71.2	68.8	64.3	9.2	12.6	13.9
Lesotho	8.3	10.9	43.7	1.4	5.2	18.5
Liberia	85.3	15.0	66.7	412.4	3.2	30.7

Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Table A3: Primary commodity exports' share in total exports and real GDP: all African countries (%) – Part 2

Country	Primary Comm. Export as % of Total Exports			Primary Comm Exports as % of Real GDP		
	1995	2005	2013	1995	2005	2013
Libya	92.5	96.1	97.8	26.3	66.3	80.0
Madagascar	77.1	44.0	65.2	10.5	7.3	19.3
Malawi	89.0	84.6	84.2	15.3	12.3	21.1
Mali	94.4	92.7	89.0	12.4	18.2	28.3
Mauritania	98.5	93.5	99.0	33.4	23.8	75.5
Mauritius	31.6	30.1	36.5	11.6	9.9	11.6
Morocco	41.8	35.6	35.9	7.4	6.7	9.3
Mozambique	87.1	96.1	90.8	5.5	25.5	31.7
Namibia	80.2	73.6	75.1	23.5	21.0	33.9
Niger	47.5	64.0	65.4	5.6	9.2	19.4
Nigeria	97.3	98.3	97.6	21.3	40.1	53.4
Rwanda	90.6	86.4	92.2	4.3	4.2	13.5
Saint Helena	78.3	40.6	56.9	3.7	6.5	13.8
Senegal	70.8	58.4	68.5	12.8	9.9	15.8
Seychelles	91.6	83.4	90.8	7.0	30.8	41.0
Sierra Leone	84.6	69.9	86.4	2.3	6.7	49.3
Somalia	97.1	85.6	89.4	9.2	9.2	17.0
South Africa	53.9	54.0	50.9	8.4	10.3	15.5
Swaziland	46.0	40.4	41.6	19.7	27.7	27.3
Togo	88.2	63.0	59.8	18.9	19.7	28.2
Tunisia	20.7	25.1	26.9	5.7	8.2	10.8
Uganda	97.2	84.4	65.6	8.8	6.8	9.6
Tanzania	92.6	89.2	83.2	7.6	10.3	17.1
Zambia	93.9	88.6	83.7	20.0	22.3	73.9
Zimbabwe	67.8	72.6	85.6	18.4	21.6	35.9

Source: UNCTAD (2015) unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?RF_ActivePath=p,15912&RF_Expanded=p,15912

Table A4: Regional comparisons of concentration and diversification indices, 1995-2013

	1995		2000		2005		2010		2011		2012		2013	
	Concentration Index	Diversification Index	Concentration Index	Diversification Index	Concentration Index	Diversification Index	Concentration Index	Diversification Index	Concentration Index	Diversification Index	Concentration Index	Diversification Index	Concentration Index	Diversification Index
World	0.052	0.000	0.074	0.000	0.076	0.000	0.077	0.000	0.084	0.000	0.088	0.000	0.085	0.000
Developing economies excluding China	0.100	0.281	0.146	0.269	0.17	0.259	0.161	0.24	0.18	0.236	0.186	0.23	0.178	0.229
Industrialized economies (UNIDO)	0.056	0.075	0.074	0.081	0.071	0.095	0.073	0.111	0.074	0.113	0.079	0.117	0.078	0.114
Africa excluding South Africa	0.343	0.681	0.437	0.691	0.523	0.665	0.498	0.632	0.507	0.62	0.518	0.616	0.497	0.608
Northern Africa excluding Sudan	0.366	0.715	0.397	0.721	0.469	0.687	0.413	0.648	0.358	0.608	0.45	0.634	0.403	0.615
Sub-Saharan Africa	0.211	0.586	0.323	0.61	0.423	0.61	0.408	0.585	0.439	0.575	0.428	0.573	0.421	0.592
Sub-Saharan Africa excluding South Africa	0.343	0.718	0.49	0.722	0.578	0.701	0.563	0.683	0.591	0.683	0.567	0.673	0.557	0.67
South Africa	0.114	0.508	0.115	0.555	0.14	0.58	0.146	0.569	0.181	0.607	0.182	0.589	0.172	0.586
Eastern, Southern and South-Eastern Asia	0.079	0.326	0.112	0.327	0.103	0.319	0.096	0.303	0.089	0.297	0.091	0.303	0.093	0.305
Eastern and South-Eastern Asia excluding China	0.096	0.347	0.143	0.351	0.132	0.337	0.13	0.315	0.121	0.308	0.122	0.305	0.129	0.308

Source: UNCTAD (2015), unctadSTAT; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Table A5: Diversification indices for SSA countries – Part 1

	1995	2005	2013	1995	2005	2013
Angola	0.859	0.816	0.836	0.839	0.842	0.845
Benin	0.769	0.806	0.786	0.770	0.764	0.769
Botswana	0.878	0.851	0.916	0.858	0.895	0.893
Burkina Faso	0.802	0.747	0.821	0.826	0.819	0.824
Burundi	0.732	0.732	0.784	0.755	0.741	0.711
Cameroon	0.819	0.798	0.763	0.730	0.706	0.695
Cape Verde	0.609	0.663	0.714	0.717	0.657	0.744
Central African Republic	0.749	0.838	0.794	0.772	0.766	0.777
Chad	0.707	0.772	0.756	0.754	0.751	0.811
Comoros	0.669	0.745	0.643	0.769	0.766	0.772
Congo, Rep.	0.822	0.787	0.827	0.812	0.807	0.807
Côte d'Ivoire	0.819	0.806	0.731	0.699	0.700	0.667
Dem. Rep. of the Congo	0.813	0.810	0.782	0.804	0.802	0.839
Djibouti	0.533	0.530	0.657	0.643	0.594	0.579
Equatorial Guinea	0.613	0.673	0.788	0.754	0.737	0.743
Eritrea	0.589	0.647	0.646	0.669	0.749	0.751
Ethiopia	0.547	0.570	0.644	0.801	0.788	0.774
Ethiopia (... 1991)	–	–	–	–	–	–
Gabon	0.789	0.872	0.855	0.830	0.820	0.826
Gambia	0.789	0.754	0.689	0.747	0.743	0.747
Ghana	0.835	0.809	0.821	0.792	0.762	0.741
Guinea	0.865	0.845	0.846	0.819	0.786	0.792
Guinea-Bissau	0.689	0.670	0.659	0.758	0.766	0.769
Kenya	0.712	0.748	0.714	0.672	0.641	0.642
Lesotho	0.887	0.810	0.849	0.874	0.859	0.852
Liberia	0.771	0.829	0.853	0.708	0.748	0.779
Madagascar	0.726	0.759	0.739	0.698	0.757	0.715
Malawi	0.811	0.865	0.825	0.817	0.796	0.817
Mali	0.758	0.806	0.822	0.840	0.869	0.84
Mauritania	0.831	0.795	0.848	0.788	0.800	0.827
Mauritius	0.791	0.836	0.703	0.707	0.697	0.698
Mozambique	0.753	0.787	0.811	0.834	0.761	0.742

Source: UNCTAD (2015) unctadstat; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=p,15912

Table A5: Diversification indices for SSA countries – Part 2

	1995	2005	2013	1995	2005	2013
Namibia	0.780	0.783	0.806	0.764	0.775	0.764
Niger	0.773	0.850	0.782	0.793	0.782	0.837
Nigeria	0.889	0.882	0.856	0.805	0.794	0.797
Rwanda	0.733	0.717	0.757	0.823	0.802	0.831
Saint Helena	0.556	0.547	0.556	0.619	0.578	0.639
Sao Tome and Principe	0.549	0.676	0.682	0.614	0.641	0.633
Senegal	0.810	0.769	0.685	0.757	0.713	0.712
Seychelles	0.721	0.824	0.841	0.806	0.827	0.831
Sierra Leone	0.710	0.655	0.684	0.696	0.801	0.841
Somalia	0.788	0.800	0.776	0.781	0.771	0.781
South Africa	0.508	0.555	0.580	0.569	0.589	0.586
South Sudan	–	–	–	–	–	–
Sudan	–	–	–	–	0.787	0.818
Sudan (...2011)	0.783	0.819	0.808	0.851	–	–
Swaziland	0.731	0.761	0.763	0.731	0.721	0.7
Togo	0.737	0.753	0.723	0.718	0.709	0.716
Uganda	0.891	0.857	0.750	0.740	0.725	0.724
United Republic of Tanzania	0.749	0.772	0.759	0.750	0.756	0.745
Zambia	0.885	0.843	0.870	0.866	0.797	0.821
Zimbabwe	0.749	0.749	0.757	0.775	0.782	0.763
Sub-Saharan Africa	0.586	0.610	0.610	0.585	0.573	0.592
Sub-Saharan Africa excluding South Africa	0.718	0.722	0.701	0.683	0.673	0.67

Source: UNCTAD (2015) unctadstat; see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=,p,15912

Table A6: Regional manufacturing value added, 1990-2013 – Part 1

	1990	2000	2010	2013
Exports of goods and services (% of GDP)				
East Asia & Pacific	28.2	24.0	23.0	–
Europe & Central Asia	20.4	26.4	32.6	32.7
Latin America & the Caribbean	19.0	21.6	24.3	24.6
Middle East & North Africa	27.5	38.4	49.8	52.3
Sub-Saharan Africa	26.2	34.4	30.2	30.3
South Africa	29.1	27.9	28.4	31.1
Manufactures exports (% of merchandise exports)				
East Asia & Pacific	73.5	85.7	80.0	79.7
Europe & Central Asia	77.6	74.3	70.8	70.1
Latin America & the Caribbean	35.6	52.6	44.6	49.3
Middle East & North Africa	–	14.6	22.1	–
Sub-Saharan Africa	–	26.8	27.7	26.8
South Africa	–	53.8	48.7	45.9
Ores and metals exports (% of merchandise exports)				
East Asia & Pacific	3.2	2.2	4.2	3.8
Europe & Central Asia	3.4	3.1	3.5	3.1
Latin America & the Caribbean	12.0	8.0	12.1	12.5
Middle East & North Africa	–	1.5	1.8	–
Sub-Saharan Africa	–	6.5	14.1	14.9
South Africa	8.1	22.4	31.0	–
Fuel exports (% of merchandise exports)				
East Asia & Pacific	6.9	4.6	6.7	8.2
Europe & Central Asia	4.2	8.0	10.6	13.1
Latin America & the Caribbean	23.8	17.8	22.2	13.1
Middle East & North Africa	–	79.2	70.5	–
Sub-Saharan Africa	–	43.8	40.3	41.4
South Africa	–	10.0	10.6	11.4

Source: UNCTAD (2015) unctadSTAT;
see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=,p,15912; and UNIDO online

Table A6: Regional manufacturing value added, 1990-2013 – Part 2

	1990	2000	2010	2013
Agricultural raw materials exports (% of merchandise exports)				
East Asia & Pacific	5.0	1.3	1.5	1.3
Europe & Central Asia	2.5	1.6	1.4	1.4
Latin America & the Caribbean	3.3	2.7	1.8	2.0
Middle East & North Africa	–	0.4	0.3	–
Sub-Saharan Africa	–	4.9	3.4	3.4
South Africa	–	3.4	1.8	1.9
Manufacturing, value added (% of GDP)				
East Asia & Pacific	28.2	24.0	23.0	–
Europe & Central Asia	–	18.8	15.4	15.1
Latin America & the Caribbean	25.4	18.7	16.7	15.8
Middle East & North Africa	11.5	11.4	–	–
Sub-Saharan Africa	15.6	13.0	11.2	10.3
South Africa	22.9	19.0	14.3	11.6

Source: UNCTAD (2015) unctadSTAT;
see http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,15912&sRF_Expanded=,p,15912; and UNIDO online

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Iron ore train outside Ganta Zorgowee, Liberia. Photo credit: jbdodane. No modifications made.



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