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Employment, productivity and growth in Africa south of the Sahara:

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Executive Summary

This paper reviews macroeconomic policies and performance in Africa south of the Sahara, focusing on 1990s and into the current global economic crisis. The purpose is to analyse the impact of policies and the global economy on growth, employment and economic structures. We examine the prospects for recovery from the crisis and the policy requirements to achieve recovery, especially with regard to design of countercyclical fiscal policy. Attention is given to policies for fostering organized employment and to reverse the employment decline of the past decades.

Section 2 reviews growth performance by beginning with an overview of the fifty years, 1960-2009, then concentrates on 1990-2009. The central conclusion of this section is that policymaking was heavily influenced by IMF and World Bank programmes, yet the long delayed recovery of the region was primarily the result of external factors rather than so-called policy reforms. The economic recovery of the second half of the 2000s came to an end with the global financial crisis of 2008. Because the countries remain vulnerable to commodity price instability, recovery will be dependent on global markets in the absence of active fiscal intervention.

In high and middle income countries a growth enhancing macro strategy will tend to be employment increasing because the majority of the labour force is in wage employment. Section 3 demonstrates that in the sub-Saharan countries increase of private sector employment from its current tiny base requires that a growth enhancing macro strategy be consistent with the elements of a conscious diversification policy. In the immediate future in countries with very low levels of wage employment, public works programmes, both countercyclical and long term would be necessary to overcome the employment losses during the 1990s and early 2000s.

Fostering wage employment, especially in the private sector, would be the mechanism by which the sub-Saharan countries would diversify their economies. The growth of wage employment, combined with a productivity linked incomes policy, would in the long term foster economies based on processing and manufacturing rather than natural resource endowments.

An annex considers the details of the policy response to that crisis which would allow the countries of the region to prevent short term decline and achieve sustained and sustainable long term growth. The availability and effectiveness of policy instruments is central to the design of a combined countercyclical and growth policy. A country by country review of instruments indicates that fiscal policy must be the principle instrument of countercyclical intervention, though a majority of the countries could complement this with exchange rate adjustment. Monetary policy is not an effective instrument of macro management in most of the countries. A second annex provides data bases used in the study, two of which, on employment and fiscal deficits, were compiled for this study.

1. Policy review and economic performance

1.1 Fifty year overview

Almost all of the sub-Saharan countries achieved political independence in the 1960s, and over five decades the average rate of economic growth for the region has been low and unstable. As discussed below it is difficult to identify any consistent policy explanation for this growth performance. The most powerful influences appear to be the impact of civil conflict and the instability of commodity prices.

Table 1 demonstrates the extent to which growth had been uneven over time and across countries. Statistics on per capita income are available for thirty-two countries for the 1960s, and twenty-one or almost two-thirds of these countries had higher per capita income in the 1980s than twenty years previously. From the next twenty years this fell to fifty-four percent of a larger number of countries (24 of 43). While the 1960s and 1970s were not decades of strong growth, the average regional performance was considerably better than subsequently. The so-called Washington consensus type policies that characterised the structural adjustment programmes of the 1980s and persisted into the 2000s were associated with lower growth. The possibility that they addressed and overcame obstacles to growth, thus laying the basis for a subsequent recovery, is considered below and rejected as not empirically substantiated.

Perhaps the most striking aspect of Table 1 is that only for nine of the forty-three countries were growth rates during 1980-2008 high enough to double per capita income in less than thirty years, and only sixteen in less than one hundred years. Performance would have been considerably worse had it not been for the brief years of relatively rapid growth in the mid-2000s. This brief period is discussed further below.

Over the five decades the region had countries with impressive growth rates, even higher than for the fastest growing countries in other regions. However, with the exception of Botswana no country sustained rapid growth over several decades (see Table 2). Indeed, several countries have the dubious distinction of having been among the fastest growers in one decade, then the slowest in another. For example, half the fastest ten growers in the 1960s was among the slowest in at least one of the subsequent decades. As indicated above, conflict explains some of the instability, with Angola, Liberia and Sierra Leone clear examples. The severity which

commodity price stability can affect growth is shown by the shifts by petroleum exporters between the fastest and slowest growing groups (e.g., Gabon and Chad).

Table 2 implies a quite important policy message. The combination of external instability and relatively inflexible production systems, aggravated in many countries by civil conflict, greatly increases the problems of economic management in the sub-Saharan region. The misleading simple response to these problems of seeking a neutral macro policy has the effect of exposing the inflexible domestic economy to a volatile external environment. This message is supported by the statistical exercise presented in an accompanying box (“Growth, debt and Global Demand”). For the region as a whole during 1990-2008, growth of the advanced OECD countries and debt relief, with an adjustment for the impact of conflict, accounted for almost eighty percent of the variation in annual average growth rates. If one accepts the behavioural model from which the estimated equation is derived, it implies that eighty percent of any change in OECD growth rates is transmitted to the average sub-Saharan growth rate.

The economies of the countries of the region differ in many ways, but almost all share the tendency to growth instability that arises from the inefficiency of markets, especially factor markets. Much of the land in the region is not a commodity, though this is in process of change.¹ The underdevelopment of financial markets is so severe as to render monetary policy completely ineffective except in a few countries (see Annex 1).

¹ For a review of land markets in Africa sympathetic to commercialisation, see Holden, Otsuka and Place (2010). Sceptical views are found in the special issue on the journal *Africa* for February 2010.

Box: Growth, Debt and Global Demand

The international financial crisis of the late 2000s provided a forceful reminder of the extent to which economic growth in the sub-Saharan countries remained linked to that of the advanced developed economies. These links, via commodity prices, foreign investment and remittances, may weaken as the countries of the region diversify their export partners, most notably China. For a straight-forward analytical approach to the impact of developed country growth on the region as a whole, we begin with the well-known identity,

$y = \Delta Y/Y = [\Delta Y/\Delta K][\Delta K/Y]$, with Y the level of national income and K the country's capital stock. Also by definition, investment, I, is equal to the change in the capital stock.

$y = [\Delta Y/\Delta K][I/Y]$ The first term is the inverse of the marginal capital-output ratio (k) and the second is the share of investment in national income (s). If these terms are assumed constant, the result is the "warranted" growth rate of the famous Harrod-Domar model, $y = s/k$.

In our simple model we assume that the growth rate of the OECD countries in the previous year determines the level of capacity utilization in the current year (how close actual k is to the technologically determined, full utilization k). Because sub-Saharan countries produce very few capital goods, the rate of investment (s) is dependent on imports. The capacity to import is limited by export performance, so we substitute the import share for the investment share, and the export share for the import share. However, throughout the 1990s and 2000s, the availability of foreign exchange for investment was reduced by debt service payments, implying that the export share should be net of these payments. Finally, regional growth in the first half of the 1990s was depressed by several armed conflicts: in Angola where output fell by a quarter during 1990-94; Liberia which suffered catastrophic collapse until beginning recovery in 1995; Rwanda with a fifty percent decline in GDP in 1994; and Sierra Leone with similar contract over a long time period. This conflict affect is included by use of binary ("dummy") variable that assume a value of one for 1990-1994.

The results of the statistical test of this behavioural model are given below, with all variables significant at lower than the generally accept five percent probability of non-significance. The statistics suggest that a one percentage point increase in the average growth rate of the developed OECD countries would in the next year raise the regional growth rate by eight tenths of a percentage point. Similarly, the "lagged" average export share across the region's countries stimulates faster growth, with this affect weakened by the diversion of foreign exchange into external debt service. The end or decline of conflict in more than a half-dozen countries resulted in an upward shift in the region's growth rate of over two and one-half percentage points.

This statistical exercise provides insight into why the region's average growth rate increased substantially in the second half of the 2000s: the end of major conflicts gave a growth boost that was reinforced by general debt relief that brought debt service payments down dramatically after 2005, and these effects allowed economies to respond more resiliently to the commodity boom generated by the growth of the developed countries and China.

Dependent Variable: Real GDP growth
across 46 sub-Saharan countries, 1990-2008

Variable	Coeff	T-stat	Sign @
Constant	-.136	-2.36	.032
[OECD] _{t-1}	.813	2.83	.013
[Xpt-DS] _{t-1}	.051	2.90	.011
D[1990-94]	-.027	-3.72	.002
Adj R ² =	.782	F = 22.58	@ .000
DF = 15		DW = 2.112	

Data sources:

OECD growth from www.oecd.org, sub-Saharan cross-country data from World Development Indicators 2009, online. DF is degrees of freedom and DW is the Durbin-Watson statistic.

1.2 Stagnation and Recovery, 1990-2009

In the middle 1980s the countries of the region entered into stagnation and decline that lasted almost to the end of the 1990s. These years of decline resulted in a near disappearance of manufacturing in many countries of the region. By the end of the 1990s the production structure of the region was reminiscent of the colonial period, consisting overwhelmingly of agriculture and mining. Declining per capita income for the majority of countries implied falling productivity except in mining sectors. Coincident with stagnation and decline were the orthodox macroeconomic policies that characterised all but a few countries.

At the end of the 1990s growth began to recover, rising and staying above population growth during 2002-2007. This section considers why this recovery occurred, the contribution of policy to it, and why it was not sustained. The analysis indicates that several domestic and international factors contributed to the end of per capita growth, which would have been unsustainable even had the global financial crisis not occurred or have come later.

Figure 1 shows the growth performance of the region during 1990-2008 with three statistics, the average growth rate across forty-five countries, the standard deviation of that growth rate among the countries, and the number of countries with negative rates. The growth rate itself shows a clear pattern, near zero growth in the first half of the 1990s, followed by ten years of rates slightly above the increase of population, and an average above five percent for the last five years, 2004-2008. For the fourteen years, 1990-2003, growth was extremely unstable, with the standard deviation well above the average for every year but one. The period of relatively rapid growth in the second half of the 2000s was associated with a substantial reduction in the variability of growth. The high number of countries with negative growth rates during 1990-1994 is explained by the several severe conflicts (see the Box on Growth and external demand).

If one disaggregates the countries into conflict-affected, and those not affected by conflict into petroleum exporters and others, the recovery during 2004-2008 appears less impressive.² For the twenty-nine countries that did not export petroleum and were not burdened by severe conflict, the average growth rate in the second half of the 2000s was hardly different from the average ten years before. The most

² Angola is included in the petroleum group even though its conflict continued into the 1990s.

substantial difference was in the performance of the eight conflict affected countries which on average achieved relatively high growth rates except for Liberia in 2003 and Zimbabwe throughout the decade. The high and unstable average for the petroleum exporting countries was the result of the volatile but high price of oil during the second half of the 2000s. The disaggregation is consistent with a growth pattern for exchange group largely the result of non-policy factors, world price fluctuations and social conflict.

The dominant force influencing the economic policies of sub-Saharan countries in the 1990s and 2000s was the International Monetary Fund, with the World Bank playing a secondary and complementary role. The extent of the role of the IMF is demonstrated by Table 3 and that of the World Bank in Table 4. Over twenty years, 1990-2009 (data for 2010 are incomplete), the governments of the forty-six sub-Saharan countries listed in Table 3 sought to manage their economies under IMF programmes during almost half the country-years (417 of 920). If one excludes the six countries whose governments entered into no agreements with the IMF, the remaining forty had programmes slightly over half the years from 1990 through 2009 (407 out of 800). Two countries, Burkina Faso and Mali, operated under IMF conditionality in all but one year, and two more, Mozambique and Senegal, missed only two years. The table for World Bank programmes is not strictly comparable to that for the IMF. Because it is difficult to determine when a World Bank programme ended, Table 4 refers to the initial year only.

However, inspection of the two tables indicates that the two international financial institutions played a major if not decisive role in policy making for all but a few countries of the region (see Figure 3). The alleged purpose of the IMF programmes at the macroeconomic level was to lay the basis for sustained and rapid growth after the extremely low growth rates of the 1980s. The IMF diagnosis, shared by the World Bank and many bilateral donors and lenders, was that reduction of fiscal deficits represented the key element for rejuvenated growth, a view encapsulated in the cliché, “sound macro fundamentals”.³ The analytical argument is that fiscal deficits result in money growth, whose result is a growing trade deficit and inflation.

³ The official view of the IMF on deficits as well as its practice in specific countries is treated analytically in Kumhof and Laxton (2009). The position of the World Bank was essentially the same in the 1980s and 1990s (see Mosley, Subasat and Weeks 1995), and is summarised unofficially on the website on the organisation’s chief economist for Africa, Shanta

In the 1990s both the IMF and the World Bank predicted economic recovery for the region, to have these predictions go unrealised.⁴ Finally, in the middle of the 2000s, a general recovery began in the region, to be frustratingly brief due to the international financial crisis. There is little evidence, rigorous or circumstantial to believe that the “reforms” of the 1980s and 1990s lay the basis for that recovery.

Fiscal deficits for thirty-six countries over the thirteen years, 1994-1996, are analysed in Table 6.⁵ The table omits conflict-affect countries because their deficits were the result of non-economic factors, most notably the inability of the governments to collect taxes. The statistic in Table 6 is the overall deficit, current and capital budgets, including external grants on the revenue side. Part A of the table provides the distribution of all thirty-six countries by the size of the deficit in GDP, and Part B excludes the petroleum exporters. If one considers the 1990s to be the period of adjustment when the aid of the IMF was to aid governments to achieve “sound macro fundamentals, the effort must be considered unsuccessful. For the thirty-six non-conflict countries, the share of countries with deficits in excess of six percent of GDP was no different during 2000-2002 that during 1994-1996, and only marginally less during the intervening three years. The right side of Table 6A makes the same point with different deficit ranges: the share of countries in surplus was unchanged for the first three periods, and the share of countries with deficits exceeding three percent hardly changed from 1994-1996 to 2000-2002. Indeed, the cross country deficit results could be considered less satisfactory by IMF standards in the first years of the 2000s compared to the last years of the 1990s.

If one excludes the petroleum exporting countries, which tended to run surplus when oil prices rose, the conclusion remains the same: deficits declined in the late 1990s compared to the middle of the decade, but rose during 2000-2002 (see Figure 4). Substantial reduction in deficits occurred in the mid-2000s, when growth rates rose. The reductions can be explained a positive elasticity of revenue with respect to national income, rather than conscious deficit reduction measures. While it is certainly the case that many governments, under IMF and World Bank

Devarajan, who argues against a fiscal stimulus “for Africa” on the grounds that a fiscal deficit would result in inflation or a reduction in private investment (“crowding out”) or both. See <http://blogs.worldbank.org/africacan/a-fiscal-stimulus-for-africa>.

⁴ The World Bank anticipated a recovery for the late 1980s which failed to occur (Mosley and Weeks 1993).

⁵ The annual statistics for each of the countries is provided in a table Annex 2.

conditionalities or “benchmarks”, introduced measures to reduce deficits such as expenditure restraint and changes in revenue management.

The hypothesis cannot be rejected that these measures had little impact on deficits which fell as a result of a rise in national income. Consistent with this hypothesis is the possibility that conscious deficit reduction measures resulted in deficits declining less not more, because these measures tend to be demand reducing. In summary, the behaviour of deficits across the sub-Saharan region during the 1990s and 2000s supports the generalisation that except in extreme cases, deficits are reduced through output growth, not through fiscal austerity.

In addition to the fiscal austerity measures, many governments of countries with IMF programmes implemented demand reducing monetary policies. Figure 5 reports the average inflation adjusted lending rate for two categories of sub-Saharan countries, those with a common currency, and those with individual currencies. After 1995 the two sets of rates more closely together. For almost a decade the average for both sets of countries was ten percent or higher. Basic growth theory tells one that “real” interest rates should be equal to an economy’s long term sustainable rate of growth of per capita income.⁶ For developed countries, this rate is assumed be equal to the rate of technical change, in the range of 1.5 to three percent per annum. For the sub-Saharan countries, where adaptation of past technology is possible, a high estimate of the long term sustainable rate would be six percent, and any persistence of a real interest rate in excess of this represents what the Neoclassicals would call a “price distortion”.

By this criterion, a substantial proportion of sub-Saharan countries were severely “price distorted” during the 1990s and 2000s, as Figure 6 shows. From 1995 through 2008 more than half of the thirty-six non-conflict countries had “real” interest rates in excess of six percent, far more than the countries that had negative rates. A similar degree of “distortion” from the theoretic guideline for real wages would be considered a major constraint on private sector investment and growth. The same judgement is appropriate for interest rates. In those countries with the more developed financial sectors, such high rates had the effect of “crowding out” investment; that is, the “crowding out” effect is real in the sub-Saharan countries,

⁶ This principle can be found in all the standard Neoclassic growth models, going back to Swan and Solow. It follows from the optimization calculation that incorporates the rate of time preference.

resulting from excessive levels of administered interest rates, not excessive fiscal deficits. In many countries these excessive interest rates resulted from a policy of inflation “targeting”, strongly encouraged by the IMF.

While the evidence does not support the view that orthodox adjustment and stabilisation measures reduced fiscal deficits, it would appear that these measures were coincident with some improvement in the current accounts of the balance of payments across the region (Figure 7). Again, the countries should be divided between those with a common currency and those without, because of the relationship that the governments of the former countries have with the government of France. While the changes for the two groups of countries were quite different during 1990-1996, from 1997 onwards the two series track each other closely, with almost continuous declines in the current account deficits until 2003, after which they come increasingly negative.

As for the fiscal deficits, the movements in the current account balance are what one would expect from a Keynesian perspective. When growth rates were low, import demand increased slowly, and then accelerated with faster growth during 2004-2008. This pattern suggests that whatever policies were implemented, on average across the countries they brought no substantial change to the long term pattern in which growth rates tend to be constrained by balance of payments pressure.

Much the same conclusion would seem to apply to inflation, which the IMF urged governments to set as a policy priority. After quite high rates during 1990-1997, associated with currency depreciation, the movement in inflation for the next ten years appear random, with no trend either for common currency or single currency countries (Figure 8). At the end of the 2000s the countries of the region appeared as inflation prone as they had been a decade before, in the range of five to fifteen percent.

In summary, the empirical evidence on growth and policy related indicators is consistent with the null hypothesis that more than twenty years of so-called policy reform had limited impact on strengthening the potential for rapid and sustainable growth in the sub-Saharan region. The drivers of the brief recovery during the second half of the 2000s appear to have been a commodity price boom, debt relief and a decline in domestic conflicts. A major factor that had previously constrained growth, growth of import demand, remained operative. Indeed, with the lower level of

industrialisation in the 2000s compared to thirty years previously, it is possible that the import constraint was even more binding.

1.3 Global crisis and regional vulnerability

The impact of the financial crisis varied across the sub-Saharan countries. Most of the countries had orthodox fiscal and monetary policies, which are notably inappropriate to counter the effects of a fall in global demand. The changed circumstances required a change in policy regime, from orthodox policy neutrality to countercyclical intervention.

Evidence from almost fifty years indicates a close correlation between the growth of the developed countries and the sub-Saharan countries (see Box, Growth, Debt and Global Demand). When one adjusts for the very low growth rates of the sub-Saharan region in the 1980s and 1990s, and debt burden, statistics reveal that a one percentage point change in the average growth rate across the OECD countries was associated with a change in the sub-Saharan average of approximately .8 percentage points with a one year lag.

Applying this simple relationship, the OECD growth rate for 2008 and projected rates for 2009-2011 can be used to estimate the rates for the African countries.⁷ This method understates the effect of the global contract because it estimates only the export demand effect, and does not include possible falls in remittances or foreign investment. After a growth of over five percent across all countries in 2007, the estimated and projected rates are 3.9 (2009), 4.9 (2010), and 4.9 in 2011. For the non-oil exporting countries of the sub-Sahara, almost all low income, the estimates are lower, 3.7, 4.0 and 4.6, respectively.⁸

While serious, these growth declines and associated poverty increases could be prevented by the rapid implementation of countercyclical fiscal policy that focuses on employment generation, supported by accommodating monetary policy and appropriate exchange rate intervention. This package of crisis-response intervention is within the resource means and administrative capacity of almost all governments of the continent. The technical aspects of the package are treated in an annex, which

⁷ The OECD rates can be found at www.oecd.org.

⁸ The scenarios are presented in detail in a study for the Economic Commission for Africa (Weeks 2010).

considers the availability and effectiveness of policy instruments. In the next section the discussion focuses on linking recovery to employment generation.

Developing this link as part of a macro strategy is essential to achieve diversification in the sub-Saharan countries, whose domestic production and exports derive overwhelmingly from primary sectors. The lack of diversification places severe limits on the development process, as well as constraining policy. The 2000s demonstrated the extent to which the countries of the region are buffeted by commodity prices, resulting in a “boom” and “bust” volatility that makes sustained, stable growth difficult to achieve. Table 2 with its lists of the region’s fastest and slowest growing countries demonstrated this sustainability undermining volatility. In similar table for Asia the ranking of countries would be much more stable, with this growth stability explained by diversification into manufacturing.

With regard to policy, the lack of diversification in national production results in a low capacity to tax. For countries that are overwhelmingly agricultural, the capacity to tax is severely limited by government’s inability to estimate farm income or production. Reliance on taxation of companies extracting natural resources results in instability of public revenues due to fluctuations in commodity prices. As a practical matter, increasing the capacity to tax requires diversification into manufacturing.

The stress by Washington Consensus policies on so-called comparative advantage has been a prescription for non-development in the sub-Saharan region. If in any other region the pattern of trade is determined by a comparative advantage based on the relative prices of primary factors, such is not the case in the sub-Saharan region. Among these countries, the export structure reflects natural resource endowments not so-called factor endowments. This basis for trade results in volatile exchange rates that respond to the volatile commodity prices.

In summary, among sub-Saharan countries, recovery from the global recession should be both quantitative (countercyclical) and qualitative. The former would focus on recovery, and the latter would convert recovery into diversification with public investment playing a major role. The growth of wage employment in both the public and private sectors would be central to the diversification process.

Table 1: Average per capita income by decade, 43 sub-Saharan countries, in order of rate of increase, 1961-2008 (1980s =100)

<u>Country</u>	<u>1960s</u>	<u>1970s</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>	<u>Growth rate 1980-08</u>	<u>years to double</u>
Eq Guinea	nd	nd	100	160	1000	12.9	5.7
Botswana	18	47	100	164	244	4.8	14.8
Mauritius	nd	nd	100	160	225	4.4	16.3
Cape Verde	nd	nd	100	126	181	3.2	22.3
Seychelles	55	79	100	144	168	2.8	25.3
Uganda	nd	nd	100	120	166	2.7	26.0
Swaziland	nd	76	100	133	159	2.5	28.3
Sudan	100	102	100	111	159	2.5	28.4
Lesotho	56	79	100	130	156	2.4	29.7
Burkina Faso	81	88	100	111	140	1.8	39.0
Ghana	132	129	100	112	137	1.7	42.2
Chad	140	119	100	104	133	1.5	45.6
Mali	94	105	100	99	125	1.2	59.3
Tanzania	nd	nd	100	99	121	1.0	69.5
Nigeria	86	122	100	106	120	1.0	71.5
Guinea	nd	102	100	106	120	1.0	72.5
Namibia	nd	nd	100	94	114	.7	101.0
Benin	91	94	100	98	111	.5	
Angola	nd	nd	100	78	110	.5	
Ethiopia	nd	nd	100	87	109	.5	
Senegal	121	108	100	94	105	.3	
South Africa	78	98	100	90	101	.0	
Rwanda	76	84	100	86	101	.0	
Mauritania	104	109	100	96	100	.0	
Kenya	64	90	100	99	100	.0	
Gambia, The	86	94	100	94	99	-.1	
Congo, Rep.	53	66	100	88	93	-.4	
Comoros	nd	nd	100	92	89	-.6	
Guinea-Bissau	nd	104	100	113	86	-.8	
Togo	85	106	100	87	85	-.8	
Zimbabwe	78	102	100	104	85	-.8	
Madagascar	133	129	100	84	83	-1.0	
Gabon	51	109	100	94	83	-1.0	
Sierra Leone	86	102	100	73	81	-1.1	
Zambia	131	127	100	79	80	-1.2	
Cameroon	59	67	100	72	79	-1.2	
Cen Afr Rep	113	117	100	82	77	-1.4	
Niger	162	122	100	79	76	-1.4	
Burundi	68	90	100	91	75	-1.5	
Cote d'Ivoire	89	125	100	79	71	-1.8	
Congo, DR	134	128	100	54	37	-5.1	
Liberia	119	136	100	21	27	-6.7	

Source: World Development Indicators online.

Table 2: Ten fastest and slowest growing sub-Saharan countries by decade, 1961-2008

	<u>1960s</u>	<u>1970s</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
<u>Fastest</u>	6.8	8.4	6.2	7.2	9.7
Togo	9.1 Botswana	15.7 Botswana	11.5 Eq Guinea	20.2 Eq Guinea	21.2
Cote d'Ivoire	8.7 Gabon	9.9 Swaziland	8.6 Eritrea	8.1 Angola	12.2
Mauritania	8.1 Seychelles	9.2 Congo, Rep.	6.8 Uganda	6.9 Sierra Leone	10.3
Botswana	7.7 Lesotho	8.5 Cape Verde	6.4 Botswana	6.1 Chad	8.4
Gabon	6.7 Cote d'Ivoire	7.6 Mauritius	5.9 Mozambique	5.5 Ethiopia	8.0
South Africa	6.1 Cameroon	7.3 Chad	5.4 Mauritius	5.4 Sudan	7.6
Kenya	5.7 Kenya	7.2 Zimbabwe	5.2 Cape Verde	5.2 Mozambique	7.4
Lesotho	5.5 Nigeria	7.0 Burundi	4.3 Burkina Faso	5.1 Rwanda	7.4
Malawi	5.3 Malawi	6.3 Kenya	4.2 Seychelles	4.9 Uganda	7.3
Liberia	4.7 Swaziland	5.7 Angola	4.2 Benin	4.5 SaoTome&Principe	6.8
<u>Slowest</u>	1.8	1.6	0.1	-0.8	0.6
Madagascar	2.8 Sierra Leone	2.7 Namibia	1.1 Cen Afr Rep	1.3 Burundi	2.6
Rwanda	2.6 Mauritania	2.6 Nigeria	0.9 Liberia	1.2 Seychelles	2.3
Ghana	2.3 Benin	2.3 Cen Afr Rep	0.9 Angola	1.0 Comoros	1.9
Cameroon	2.1 Niger	2.2 Eq Guinea	0.9 Congo, Rep.	.8 Togo	1.9
Mali	2.0 Cen Afr Rep	2.0 Mali	0.6 Cameroon	.4 Gabon	1.7
Cen Afr Rep	1.9 Zambia	1.6 Madagascar	0.4 Zambia	.4 Cen Afr Rep	1.0
Senegal	1.3 Madagascar	1.5 Mozambique	0.4 Burundi	-1.4 Eritrea	.3
Sudan	1.2 Ghana	1.4 Niger	0.0 Somalia	-1.5 Guinea-Bissau	.2
Somalia	1.1 Congo, DR	0.3 Cote d'Ivoire	-0.2 Sierra Leone	-4.3 Cote d'Ivoire	.1
Chad	1.0 Chad	-1.0 Liberia	-4.5 Congo, DR.	-5.5 Zimbabwe	-5.8
Average	4.0	4.6	2.8	3.0	4.8
Std dev	2.2	3.2	2.5	3.6	3.8
No of countries	32	34	45	47	47

Source:: World Development Indicators 2009, online.

Table 3: Countries receiving IMF funding by year, 1990-2010

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Years	
Angola																							2
Benin		=====			=====			=====		=====													16
Botswana																							0
Burkina Faso		=====																					19
Burundi		=====												=====									9
Cameroon		=====																					17
Cape Verde																							4
Cen Afr Rep	=====																						10
Chad																							11
Comoros		=====																					4
Congo, Dem. Rep.																							5
Congo, Rep.	=====																						10
Cote d'Ivoire	=====																						10
Equatorial Guinea		=====																					3
Eritrea																							0
Ethiopia																							9
Gabon	=====																						8
Gambia, The	=====																						11
Ghana	=====																						15
Guinea		=====																					11
Guinea-Bissau																							8
Kenya	=====																						10
Lesotho	=====																						9
Liberia																							2
Madagascar	=====																						15
Malawi	=====																						15
Mali	=====																						20
Mauritania	=====																						14
Mauritius																							0
Mozambique	=====																						18
Namibia																							0
Niger	=====																						16
Nigeria																							0
Rwanda		=====																					15
Sao Tome & Principe																							7
Senegal	=====																						18
Seychelles																							2

Table 3: Countries receiving IMF funding by year, 1990-2010, continued

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Years	
Sierra Leone					=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	16
South Africa				=====																			1
Sudan																							0
Swaziland																							0
Tanzania	=====	=====	=====																				17
Togo	=====		=====																				8
Uganda	=====	=====	=====																				16
Zambia																							12
Zimbabwe																							6
Received funding	18	20	12	11	23	19	21	19	22	22	23	21	25	22	21	22	19	18	23	26	[10]	417	
																						Mean	9.1
																						Excl zeros	10.8

Source:
<http://www.imf.org/external/country/index.htm>, where on each country page programmes by year are listed under “Transactions with the Fund”.

Table 4: Countries initiating World Bank programmes with macroeconomic policy conditions, 1990-2009

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Angola														█				█		
Benin		█		█		█						█	█		█	█			█	█
Botswana																				
Burkina Faso		█	█		█				█	█		█	█	█	█	█	█	█	█	█
Burundi			█		█						█		█	█	█		█		█	█
Cameroon	█				█		█	█	█	█	█	█	█	█						
Cape Verde								█	█	█		█	█			█	█	█	█	█
Cen Afr Rep	█	█	█							█									█	█
Chad					█		█	█		█		█		█						
Comoros		█										█								
Congo, Dem. Rep.	█											█	█	█	█	█	█	█	█	█
Congo, Rep.					█	█						█		█	█		█			
Cote d'Ivoire		█			█	█		█					█						█	█
Equatorial Guinea																				
Eritrea																				
Ethiopia			█	█	█	█					█	█	█		█					
Gabon					█			█												
Gambia, The																				█
Ghana	█	█														█	█	█	█	█
Guinea												█								
Guinea-Bissau			█							█							█		█	█
Kenya	█	█	█				█	█			█	█								
Lesotho					█															
Liberia															█		█		█	█
Madagascar	█	█	█					█		█			█		█	█	█	█	█	█
Malawi	█	█					█	█	█		█			█	█	█	█	█	█	█
Mali	█	█			█	█	█	█						█		█	█	█	█	█
Mauritania	█				█	█	█	█			█									
Mauritius													█				█			
Mozambique		█	█		█			█	█				█	█	█	█			█	█
Namibia																				
Niger					█										█	█	█			█
Nigeria			█												█	█	█			
Rwanda	█	█				█		█		█			█		█	█	█			█
ST&P	█	█	█																	
Senegal	█	█	█		█	█	█	█			█				█		█			█

Table 4: Countries initiating World Bank programmes with macroeconomic policy conditions, 1990-2009, continued

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Seychelles																					
Sierra Leone																					
South Africa																					
Sudan																					
Swaziland																					
Tanzania																					
Togo																					
Uganda																					
Zambia																					
Zimbabwe																					
New Programme	14	16	14	7	18	9	11	12	7	12	11	12	11	14	18	12	16	11	18	19	

Source: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/0,,pagePK:180619~theSitePK:136917,00.html>, on each country page go to 'Programs and Projects'.

Notes:

For the World Bank, only those with macro conditionalities, including structural adjustment credits (SAC), structural adjustment loans (SAL), sectoral adjustment loans, debt relief programmes, budget support, and Poverty Reduction Strategy Credits (PRSC). The numbers in parenthesis are the total number of programmes.

Table 5: Fiscal balances in 36 sub-Saharan countries, 1994-2006

Part A: All 36 countries, percentage distribution

<u>Fiscal balance</u>	<u>1994-96</u>	<u>1997-99</u>	<u>2000-02</u>	<u>2003-06</u>	<u>Fiscal balance</u>	<u>1994-96</u>	<u>1997-99</u>	<u>2000-02</u>	<u>2003-06</u>
over +3%	7	4	8	16	surplus	16	16	16	26
0 to +3%	8	12	8	9	> -3%	45	54	48	63
0 to -3%	30	38	32	38	< -3%	55	46	52	37
-3 to -6%	33	26	29	26					
-6 to -10%	14	10	13	7					
less than -10%	<u>7</u>	<u>10</u>	<u>9</u>	<u>4</u>					
percentage sum	100	100	100	100					
No of observations	108	105	106	141					

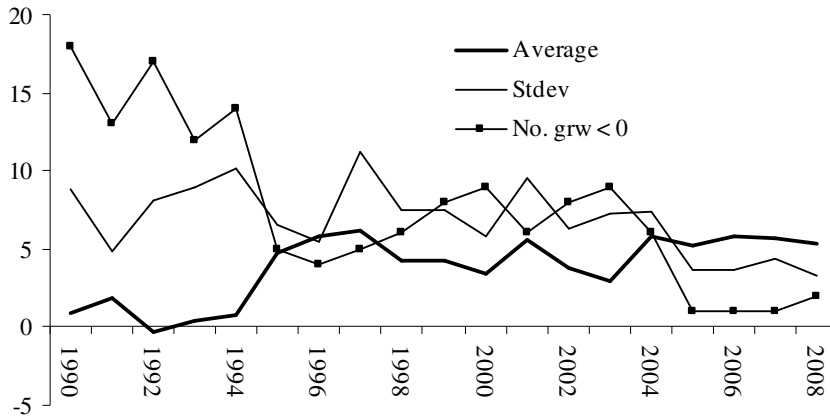
Part B: Thirty countries not exporters of petroleum, percentage distribution, 1994-2006

<u>Fiscal balance</u>	<u>1994-96</u>	<u>1997-99</u>	<u>2000-02</u>	<u>2003-06</u>	<u>Fiscal balance</u>	<u>1994-96</u>	<u>1997-99</u>	<u>2000-02</u>	<u>2003-06</u>
over +3%	10	6	3	9	surplus	17	18	8	17
0 to +3%	7	13	5	9	> -3%	46	55	44	60
0 to -3%	29	37	36	43	< -3%	54	45	56	40
-3 to -6%	33	26	32	28					
-6 to -10%	13	9	16	8					
less than -10%	<u>8</u>	<u>9</u>	<u>8</u>	<u>4</u>					
percentage sum	100	100	100	100					
No of observations	90	87	88	117					

Sources: See notes to Table A.3 in the Annex.

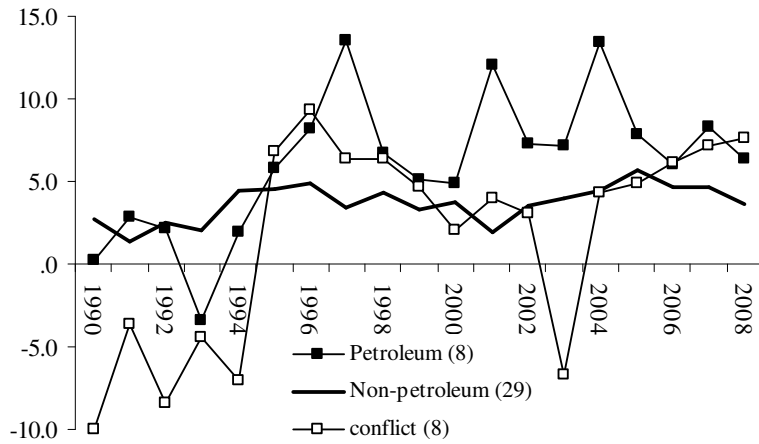
Note: the petroleum exporters are Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon and Nigeria.

Figure 1: Average and standard deviation of growth across 45 sub-Saharan countries, and number of countries with negative growth, 1990-2008



Source: World Development Indicators 2009 online.

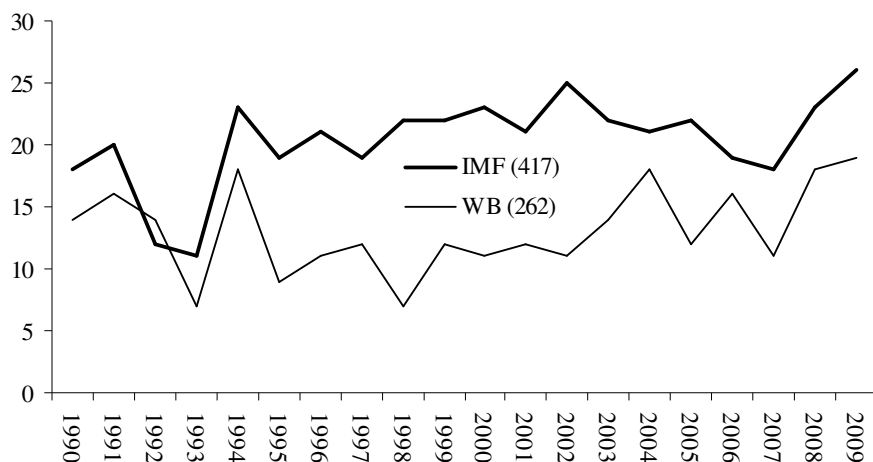
Figure 2: GDP growth of 45 sub-Saharan countries, 1990-2008



Source: World Development Indicators 2009 online.

Notes: Conflict countries the same as in Table 5. Petroleum countries are Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria and Sudan.

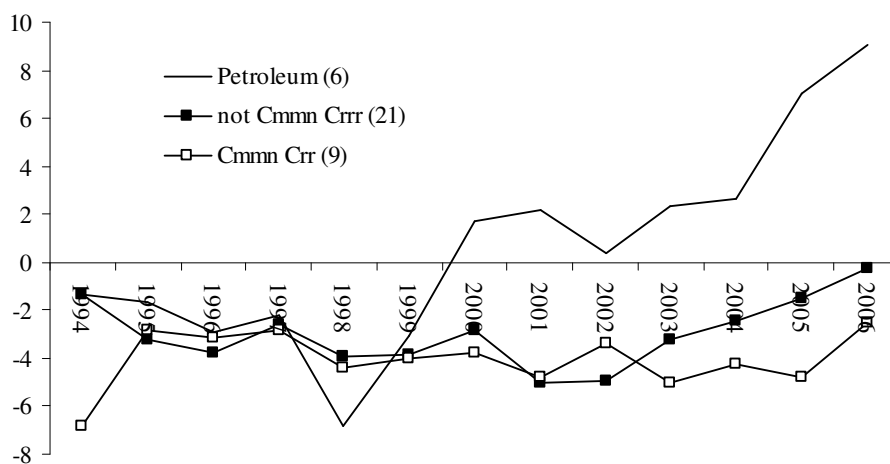
Figure 3: Number of sub-Saharan countries initiating IMF and WB programmes with macro conditionalities by year, 1990-2009 (out of 46 countries)



Sources: www.imf.org and www.worldbank.org, listed under countries.

Note: For the IMF all programmes are included since all have macro conditionalities. For the World Bank, only those with macro conditionalities, including structural adjustment credits (SAC), structural adjustment loans (SAL), sectoral adjustment loans, debt relief programmes, budget support, and Poverty Reduction Strategy Credits (PRSC). The numbers in parenthesis are the total number of programmes. The numbers in parenthesis are, for the IMF the total number of years of IMF programmes, and for the World Bank the number of years of the initiation of a programme.

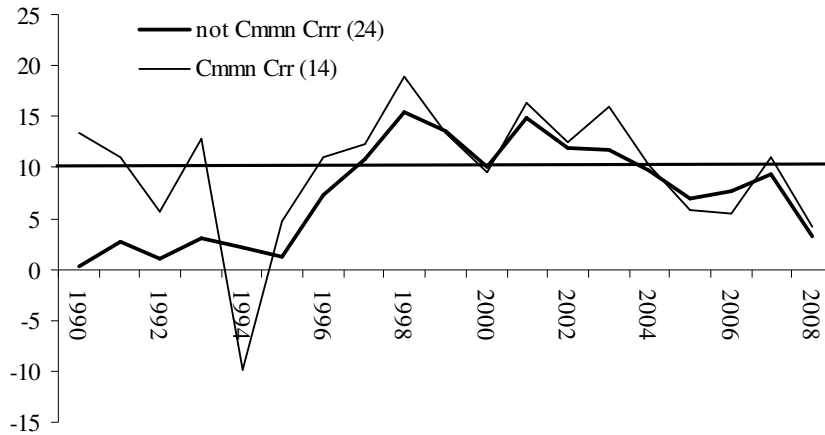
Figure 4: Fiscal deficits as a percentage of GDP in 36 sub-Saharan countries, by structural categories, 1994-2006



Source: See annex.

Note: The petroleum exporting countries are Cameroon, Republic of Congo, Chad, Equatorial Guinea, Gabon and Nigeria. Conflict countries excluded.

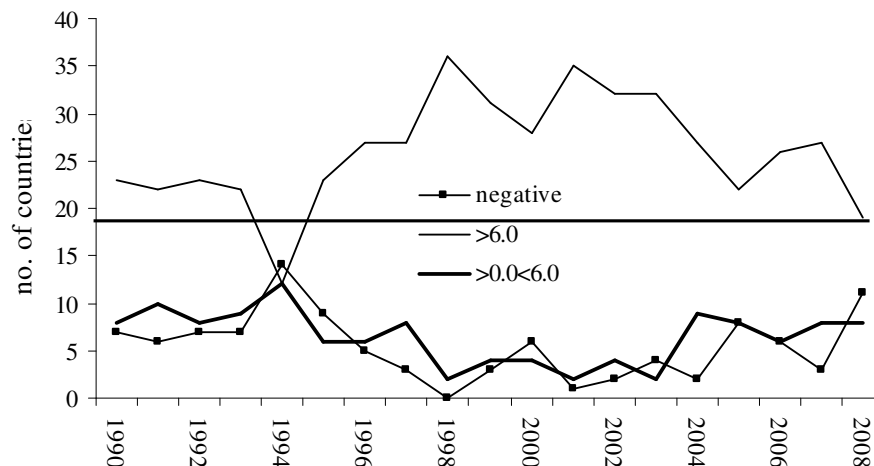
Figure 5: Inflation adjusted lending rates in thirty-eight sub-Saharan non-conflict countries, common currency and single currency groups, 1990-2008



Source: World Development Indicators 2009, online.

Note: The West African Economic and Monetary Union (WAEMU) includes eight countries, Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo. In addition to a common currency the governments of these countries are constrained to balance the current account of the public budget. The capital account can have a deficit if the method of funding the deficit is specified. The other common currency group is the Central African Economic and Monetary Community (CAEMC), which includes Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon. Both currencies have a fixed parity to the euro, and are both commonly called the CFA franc. Formally they are not freely interchangeable, except via euro convertibility that is guaranteed by the French Treasury, which holds at least sixty-five percent of the pooled reserves of each area. In practice the currencies circulate together in some countries.

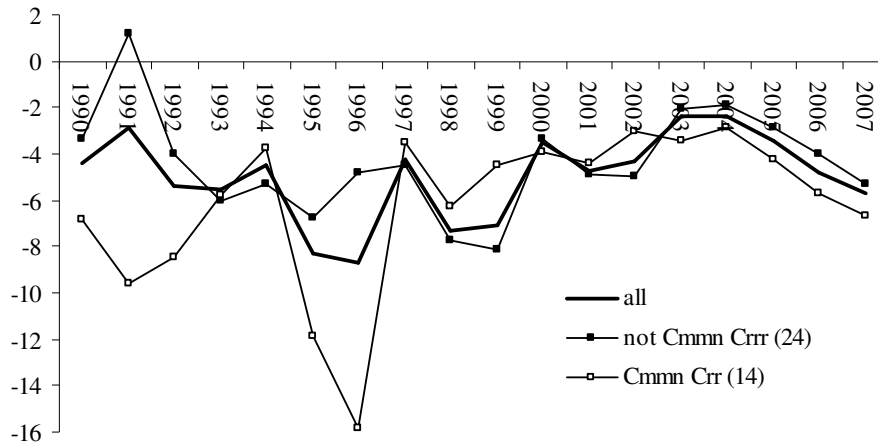
Figure 6: Division of thirty-eight sub-Saharan countries into categories by level of real lending rates, 1990-2008



Source: World Development Indicators 2009, online.

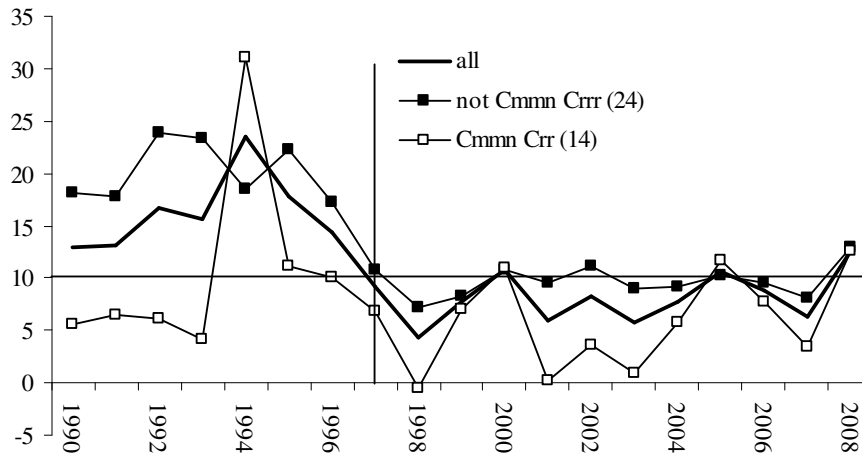
Note: Conflict countries excluded.

Figure 7: External current account as percentage of GDP in thirty-eight non-conflict sub-Saharan countries, common currency and single currency groups, 1990-2008



Source: World Development Indicators 2009, online.
 Note: Conflict countries excluded.

Figure 8: Inflation rates in 38 non-conflict sub-Saharan countries, common currency and non-common currency countries, 1990-2008



Source: World Development Indicators 2009, online.
 Note: Conflict countries excluded.

3. Policies for fostering paid/organized employment

By the end of the twentieth century wage employment in the sub-Saharan region had fallen to such a low level that few governments had the political or policy motivation to collect the statistics. With exception of the International Labour Organisation, no outside agency showed interest in such statistics, a lack of interest quite consistent with the Washington Consensus on economic policy.

The long term route to reverse the employment decline is a purposeful, active fiscal policy supported by other policy instruments. Short and medium term measures are public employment, linked to countercyclical fiscal policy in the short run, and a long term element generated by growth-enhancing public investment. The public employment would be the basis of a long term wage and productivity policy, explicitly linked to private sector wages and productivity through a wage and incomes policy.

For the majority of the countries of the region, enumerated employment accounts for a relatively small proportion of the labour force. Even in those countries in which enumerated employment is small, it can and does make a substantial contribution to aggregate demand at the margin. As a result, it is an effective vehicle for countercyclical intervention for countries that cannot implement unemployment compensation.

It is unfortunately the case that information on enumerated employment for the last twenty years in Africa is almost non-existent.⁹ The statistics on aggregate paid employment that are available, for twenty countries, are presented in Annex 2. Few countries have statistics prior to the late 1970s almost all series end in the 1990s. Two countries have statistics into the mid-2000s (Botswana and South Africa); five end in the early 2000s (Kenya, Malawi, Seychelles, Swaziland and Zimbabwe); and the remaining thirteen stop sometime in the 1990s and several these have missing years.

Table 6 summarises what analytical results are possible for aggregate paid employment.¹⁰ Nine of the countries show a positive trend in employment, six have no significant trend, and for four the trend was negative. Except for South Africa, the

⁹ The data available for the 2000s is considerably less than when Jamal and Weeks (1993) attempted to compare rural and urban incomes in several countries for the 1980s.

¹⁰ For an analysis of employment trends up to the early 1990s, see Weeks (1997). Since that study was written very little new quantitative information has appeared.

statistics are of low quality, beset by problems of consistency of coverage and definition over time, which makes drawing conclusions extremely problematical. Generalisations are made more difficult to infer because three of the four largest countries in the region, accounting for forty percent of the sub-Saharan population (Congo DR, Ethiopia and Nigeria), have no reliable data for any year or for only one year. For two of the countries, Ethiopia and Nigeria, so-called formal wage employment in the private sector is large absolutely, perhaps in the hundreds of thousands. Collection of employment statistics should be made a priority in both countries.

On the basis of this extreme paucity of statistics, a few observations are possible. First, among the sub-Saharan countries wages in enumerated employment are a major source of income in most of the island countries (Seychelles, Mauritius and Cape Verde). However, there are no data to make informed speculation about recent trends in real wages and productivity.¹¹ In three mainland sub-Saharan countries enumerated employment exceeded twenty-five percent of the labour force, South Africa, Botswana and Swaziland. This level was probably reached in Zambia in the early 1980s, after which employment declined dramatically.

It is likely that in a majority of the sub-Saharan countries the share of the labour force in enumerated employment is less than ten percent. This inference is supported by Figure 9 which gives the scatter diagram for per capita income and the share in the labour force of enumerated employment for the thirty-eight countries in Table 6. The statistics show a clear and strongly significant relationship, as one would expect.

Second, though the available statistics cannot verify it, enumerated employment probably declined in most sub-Saharan countries in the 1980s and 1990s, and showed a mild recovery in the 2000s. The long decline was associated with externally supported adjustment programmes that directly reduced both private and public enumerated employment. The private employment decline resulted from reduction in protection, privatisation and contractionary macroeconomic policies. In several countries lending conditionality specified reductions in public employment, sometimes providing funding for redundancies.¹² The increase in GDP growth rates

¹¹ For the North African countries where wage employment is much greater than in the sub-Saharan countries, see in Karshenas (1997).

¹² See the case study of Zambia in Weeks *et. al.* (2006).

during 2004-2007 almost certainly led to rising enumerated employment, though again there are no statistics to verify this except in South Africa.¹³

The probable fall in enumerated employment in sub-Saharan countries during the 1980s and 1990s was part of the long term decline of the region. A central goal of sustained recovery should be the reconstruction of viable, employment intensive non-agricultural sectors throughout the region. This could be the medium term complement to the countercyclical recovery programme to mitigate the growth decline caused by the global contraction.

Third and essential to future development policy, governments throughout the region should give priority to the collection of data on employment. Into the mid-1990s many governments in Africa carried out annual employment and earnings surveys. By the end of the decade almost none did. The absence of such surveys cannot be explained either by their expense or difficulty, because almost all the governments, with the support of donors and lenders, implemented much more difficult and expensive household surveys, usually linked to Poverty Reduction Strategy Programmes. The most likely reason for the absence of employment data, even in countries where it had previously been regularly collected, is political. Poverty surveys became more consistent with donor and lender priorities than employment surveys, at the same time when declines in employment made the collection of employment data a possible embarrassment.

¹³ The fragmentary information for Botswana indicates a fall in enumerated employment (see table in Annex 2). Botswana Its growth rate was lower during 2005-2008 than in the previous years, the reverse of the experience of most African countries.

Table 6: Paid employment shares and trends, 34 sub-Saharan countries, 1997-2008

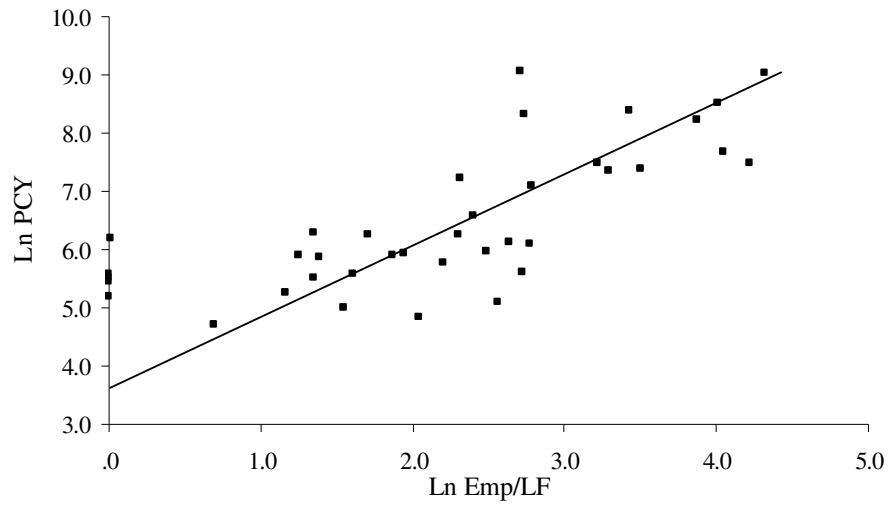
	<u>Year</u>	<u>% LF</u>	<u>Emp trend</u>	<u>Trend country count:</u>	
Seychelles	2003	75	nsgn	Positive	9
Mauritius	2000	55	-2.0	Negative	4
South Africa	2007	48	+1.2	Nnsgn	6
Cape Verde	2000	33	no data		
Botswana	2006	31	+8.5		
Swaziland	2000	27	nsgn		
Congo Rep	1990	16	no data		
Zimbabwe	2002	16	+0.6		
Eq Guinea	1983	15	no data		
Gabon	1996	15	no data		
Madagascar	2005	15	no data		
Kenya	2000	14	+3.9		
Malawi	1995	13	+2.4		
Zambia	1990	12	+1.0		
Cameroon	1985	11	no data		
Angola	1992	10	no data		
Cote d'Ivoire	1990	10	-1.3		
Ghana	1991	9	nsgn		
Guinea-B	1983	8	no data		
Gambia	1990	7	nsgn		
Tanzania	2001	7	no data		
Senegal	1991	6	+3.2		
Eritrea	1998	5	no data		
Sierra Leone	2004	5	no data		
Benin	1992	4	nsgn		
Sudan	1992	4	no data		
Togo	1997	4	-0.3		
Ethiopia	2004	3	no data		
Mozambique	1988	3	no data		
Burundi	1991	2	+2.0		
CAR	1992	1	-3.1		
Chad	1997	1	+4.4		
Niger	1991	1	nsgn		
Nigeria	1980	1	no data		

% LF is percentage of labour force, with the latter as estimated by ILO.

No data for any employment variables: Comoros, Congo DR, Djibouti, Guinea, Lesotho, Liberia, Mali, Mayotte, Mauritania, Namibia, Rwanda, and Sao Tome and Principe.

Source: <http://laborsta.ilo.org/>

Figure 9: Relationship between wage employment share in labour force and per capita income, 34 African countries, various years (natural logs)



Note: The T-statistic for the simple regression is significant at .00 level of probability.

Annex 1: Countercyclical Policy for sub-Saharan Countries

Design of countercyclical intervention

Countercyclical policy increases demand when the economy grows below its long run potential, and decreases it when output encounters resource scarcities that provoke inflationary pressure. This output stabilization policy maintains an economy as close to its potential as is consistent with other goals of policymakers. It is not a growth policy, which would involve public investment to contribute to increasing productive capacity.

To be relevant for the low income countries of sub-Saharan Africa, countercyclical intervention requires concrete specification. Reducing taxes would be relatively ineffective because of the nature of the revenue generation. In low income countries personal income taxes are rarely important, with most revenue from taxes on internal commerce, international trade and corporations.¹⁴ Almost all the company tax is collected from foreign enterprises engaged in extractive activities, and reducing their taxes would have little impact on their domestic investment decisions.

The alternative to tax reduction, enhancing demand by public expenditure, requires that the increases are flexible enough to be initiated quickly when there is a demand shock, and terminated with similar dispatch as the economy approaches its potential. Public investments do not meet this condition because of their relatively long and inflexible construction time. Much of current expenditure is also inflexible. For example, it might be possible to increase the number of school teachers if trained people were available, but it might not be rational to terminate them when the economy approaches its potential. If it were judged rational from an educational point of view, it might prove politically difficult.

Because of the inappropriateness of capital expenditure and much of current expenditure of countercyclical intervention, government could base stimulus programs in the sub-Saharan countries on temporary employment schemes, 'cash for work'. Appropriate projects would be rapidly-completed activities using employment

¹⁴ The World Bank data base *World Development Indicators* gives disaggregated tax statistics for twenty sub-Saharan countries in the 2000s. For all but two trade taxes were at least twenty percent of revenue. The exceptions were South Africa and the Republic of Congo. Sales taxes accounted for thirty percent or more for eleven of the twenty countries. Personal and company taxes brought in twenty percent or more of revenue in only four of the countries (Ghana, Kenya, South Africa and Zambia). The source provides no information for the major petroleum exporters, Angola, Cameroon, Chad, Equatorial Guinea, Gabon and Sudan. <http://ddp-ext.worldbank.org/ext/DDPQQ/>

intensive techniques that have a large component of repair and maintenance.¹⁵ Examples of such programs are digging sanitation ditches, repair of public buildings, environmental improvement through erosion reduction, and clearing of rural footpaths. These activities were implemented in 2009 throughout Sierra Leone by the National Commission for Social Action as part of a countercyclical policy (Weeks 2009c). The projects would make a contribution to community welfare, though their primary purpose is to increase aggregate demand through the expenditures of those directly and indirectly employed. To be effective, the employment schemes would have the following characteristics:

- 1) identified and “stock-piled” prior to the need for them, with accounting procedures in place to reduce the likelihood of misuse of funds;
- 2) easily initiated and quickly terminated, implying that they should be implemented by the central government in order to avoid delays due to limited administrative capacity of local governments; and
- 3) wages and salaries are the major element of expenditure, with a low capital component.

Some issues that plague public works projects with controversy need not be relevant for ones whose purpose is countercyclical. For example, the wage at which workers are paid is a secondary consideration because these are not long term or even medium term employment schemes. The appropriate wage will vary across countries and regions, guided by the principle that the primary purpose of the projects is to increase demand quickly. This would be best achieved by hiring as many people as possible, which implies paying wages at or below prevailing rates. These programs would be introduced when the labour is in excess supply, thus unlikely to affect prevailing wage rates. A ministry of finance study in Sierra Leone recommended this type of employment program as a policy measure to counter the effects of the financial crisis (MoFED-EPRU 2009).¹⁶

Clear rules should be established for the initiation and termination of countercyclical projects. A “countercyclical” expenditure that becomes permanent

¹⁵ The International Labor Organization calls such projects as “labor-intensive public works”. The ILO website provides further information on short term employment programs. <http://www.ilo.org/public/english/employment/recon/eiip/index.htm>

¹⁶ In Sierra Leone the most important cash for work project in 2009 was supported by US\$ 4 million from the World Bank. It employed about 14,000 people in infrastructure maintenance.

negates its purpose. Initiation and termination could be triggered by a policy rule based on appropriate macroeconomic indicators. The specific indicator will vary by country, determined by the development and structure of the economy. Among sub-Saharan countries, only in South Africa are employment statistics sufficiently current and reliable to serve as a trigger indicator. In other countries, almost all of which lack quarterly data on aggregate output, a proxy based on trade statistics could be constructed.¹⁷

Two technical arguments are presented to justify abandoning fiscal policy for economic management: the possible inflationary effect of deficits, and the putative tendency for public borrowing to “crowd out” private by causing interest rates to rise. We first consider the relationship between public deficits and inflationary pressures is analytically straight-forward.

An increase in spending from any source results in a reduction of expenditure of another type if an economy is at full potential. If the expenditure is by the public sector, its inflationary impact will depend on how it is financed. The expenditure can be financed through borrowing by sales of government securities to the private sector (“open market operations”) or by the ministry of finance borrowing from the central bank (“monetizing the deficit”). An increase in a public deficit is not inflationary if financed by bond sales to the private sector, because the net change in the money supply is zero. The government takes money out of circulation by the bond sale, and returns the same amount to circulation through its increased expenditure. Assuming that the private sector holds its desired amount of bonds before the additional public borrowing, the government must offer the bonds above the prevailing interest rate. If the increased bond rate transmits to private financial markets and investment is sensitive to interest rates, “crowding out” results. In contrast, if the government borrows directly from the central bank, the money supply increases and inflation results, with an important exception. In an open economy part of the increased money in circulation will be spent on imports, reducing the inflationary impact, but creating or increasing a trade deficit.

If the economy is operating at less than full potential, neither type of deficit financing should generate more than minor and transitory inflation, though “crowding out” could occur. More government expenditure financed by bond sales to the private

¹⁷ In a study of Sierra Leone quarterly export revenue and government expenditure were used to estimate quarterly GDP (Weeks 2009d).

sector would bring a net increase in aggregate demand. As before, no change in the money supply occurs. Also as before, if the public held their desired amount of government debt prior to the bond sale, the new issues must be at a higher interest rate, creating upward pressure on private interest rates, depressing private investment expenditure. The net change in aggregate demand would be positive and less than the increase in public expenditure unless private investment is extremely interest rate elastic, which is extremely unlikely in the sub-Saharan region. Financing the expenditure by direct borrowing from the central bank would not require a higher bond rate. The increase in aggregate demand would equal the increase in public expenditure, and monetizing the deficit generates an increase in the money supply sufficient to circulate the increased output that results from more public expenditure.

Few sub-Saharan countries have sufficiently developed bond markets to allow for effective open market operations. In the absence of an effective secondary bond market the major motivation of commercial banks to hold public bonds is statutory requirements on the composition of reserves. This implies that high interest rates are required to induce banks to purchase bonds beyond their legal obligation. The absence of a secondary market and high yields on public bonds means that financing deficits by bond sales has the perverse effect of discouraging commercial banks from funding productive investments, which are riskier than holding government securities.¹⁸ A second major effect of high interest rates is to increase the cost of servicing the domestic public debt.

With the economy well below its potential, monetizing the deficit is an effective tool for the expansion of aggregate demand, generating neither inflation nor “crowding out” of private expenditure. The government’s expenditures on infrastructure could be consciously designed to “crowd in” private investment by lowering costs of transport, electricity and water supply.¹⁹ In many African countries,

¹⁸ This process is discussed in detail for Zambia in Weeks, *et. al.* (2006). This represents what might be called “bank squeezing out”. The typical use of the term “crowding out” refers to a fall in private investment that results from government borrowing that pushes up interest rates, discussed in the previous section. More relevant in sub-Saharan countries is the decision by private banks not to lend because the risk-adjusted return on public bonds is greater than that for lending to private non-financial borrowers. The return on public bonds is high because of the oligopsonistic power of private banks in sub-Saharan countries.

¹⁹ An example is the repair of the Bumbuna hydroelectric site, which could greatly reduce power cuts and private generators in Sierra Leone, especially Freetown. See <http://siteresources.worldbank.org/EXTDEVCOMMENG/Resources/sierraleone.pdf>

Zambia, for example, the increased cost of servicing the public debt as a result of bond sales should be a greater concern than inflation or “crowding out”.

Exchange Rate Management

Fiscal expansion, by increasing output and private demand, will increase imports and generate a trade deficit or make an existing deficit larger. This is one of the problems that undermined the use of active fiscal policy in developing countries in the past and discredited it as an instrument of macro management, especially in Latin America in the 1970s. Exchange rate depreciation or devaluation can be used to counter the tendency of fiscal expansion to create an unsustainable trade balance.

Thus, depreciation or devaluation is an intended part of a countercyclical policy, and causes a rise in the domestic price level equal to at least the “pass-through rate” (marginal propensity to import) times the change in the nominal exchange rate. While necessary and intended, this exchange rate induced increase in the price level creates the risk of destabilizing inflation if the nominal devaluation is large. Managing this risk is an essential part of a successful active fiscal policy.

As fashion moved against active fiscal policy over the last three decades, there was a shift to a view that “flexible” exchange rates were the only practical policy choice for governments. Therefore, it is necessary to explain why exchange rate management by African governments would be both feasible and possible as part of policy to counter the global crisis.²⁰ In practice almost all governments intervene in foreign exchange markets.²¹ The policy choice is not between “fixed” and “flexible” exchange rate regimes, but selection of the most appropriate point on a range of forms and degrees of intervention in the context of the characteristics of the economy (Fischer 2001). Governments and central banks repeatedly shift between “flexible”

²⁰ An argument in favor of a return to managed exchange rates is found in Rolnick and Webber (1989), who write, “[W]e maintain there is a convincing case that a fixed exchange rate system is feasible and should be established. Theory shows it feasible, and overlooked empirical evidence shows it possible.”

²¹ The IMF categorizes countries by exchange rate regime, and the Annual Report for 2007 lists only thirty-five out of over 150 as having an “independently floating” exchange rate. Only two were in the sub-Saharan region, Democratic Republic of Congo and Somalia. The listing of the latter seems an anomaly because Somalia has no government and no currency. Another anomaly is the absence of Sierra Leone from the table.

and “fixed” exchange rates.²² Any time a central bank intervenes to moderate the rise or fall of the national currency it is “fixing” the exchange rate, however briefly.

The exchange rate management that would be part of the proposed stimulus package would not seek to maintain a “fixed” rate for the domestic currency against any foreign currency. The purpose of the intervention would be to control the rate of depreciation of the national currency against the currencies of major trading partners in order to prevent a widening of the trade gap as the economy expanded and prevent excessive weakening that would stimulate unmanageable inflation. The exchange rate managers would face two possible contexts, one in which the fiscal expansion was accompanied by no “weakening” of their currency and another in which fiscal expansion automatically provokes depreciation.²³

The *devaluation case* occurs if there is no market pressure to weaken the national currency as public expenditure increases. The government must act directly on the exchange rate, to raise the price of tradables, which will reduce import demand and raise the return to exporters. The mechanism for exchange rate management will differ with the characteristics of financial and foreign exchange markets in each country. In effect, the government would temporarily be implementing a “crawling peg” exchange rate regime. The *depreciation case* occurs if the fiscal expansion is accompanied by market pressure to weaken the currency. While the market pressure to weaken the exchange rate serves the government’s purpose of increasing competitiveness, intervention is potentially necessary to prevent the currency from depreciating at a rate that generates unmanageable inflation pressures.²⁴

In summary, the exchange rate can be an effective policy instrument for supporting a fiscal stimulus, especially important if monetary policy is ineffective. This effectiveness is limited by potential inflationary effects. However, for many governments in the sub-Saharan region exchange rate policy is precluded by currency arrangements, as discussed in the next section.

²² Exchange rate management is treated in Rolnick and Webber (1989) and Bartolini and Prati (1997). An IMF Staff Paper from the 1970s shows how much the conventional wisdom has moved against exchange rate management (Lipschitz 1978).

²³ The well-known Fleming-Mundell model predicts that a fiscal expansion would result in exchange rate appreciation. That analysis is not relevant to most of Africa because the countries have no significant level of portfolio flows due to lack of the necessary financial institutions. Theoretical problems in the model are discussed in Weeks 2009b.

²⁴ Exchange rate management in Zambia is discussed in detail in Weeks, *et. al.* (2007).

Feasibility of countercyclical intervention

If a government could effectively use all its policy instruments the design of the stimulus package would follow the standard textbook prescription: an increase in expenditure or a reduction in taxes would provide the principle demand stimulus; the exchange rate would be managed to prevent deterioration in the external current account; and the fiscal deficit would be financed in part or entirely by public bond sales to the private sector to prevent excessive money growth. For countries that export exchange rate inelastic commodities, such as petroleum, currency adjustment would affect only imports.

However, the policy options facing the governments of the sub-Saharan countries are considerably more restricted than this, as shown in Tables 1.1 through 1.3. If we ignore restrictions set by donors and lenders, policy space in the sub-Saharan region is restricted by two types of constraints, institutional and economic. As the first column of Table 1.1 shows, very few countries in the region have the basic institutions to implement monetary policy. As summarized in Table 1.2, seventeen countries were part of a common currency zone (fourteen) or operated with an inflexible link to the South African rand (three). Of the twenty-nine countries with national currencies, in eighteen governments did not issue bonds, or issued bonds but no formal bond market existed.²⁵ For the region as a whole, only eleven of almost fifty countries had secondary bond markets and only South Africa had an effective and relatively efficient resale market.²⁶ For practical purposes, monetary instruments are of little use in the sub-Saharan region except for a few countries.

Though less limited than monetary policy, exchange rate adjustment is not available to a substantial number of sub-Saharan government, because, as noted above, fourteen have a common currency. Three more have chosen to maintain a strict link to the rand within the Common Monetary Area. Of the remaining twenty-seven, eight operated with adjustable fixed exchange rates and nineteen with managed or “flexible” rates. The majority of these twenty-seven had no bond markets in which

²⁵ The most accessible source for information on monetary institutions and financial markets in Africa is the Wharton Financial Institutions Center of the University of Pennsylvania, which provides recent reports on almost all countries. See <http://fic.wharton.upenn.edu>. For countries in Africa not covered in Wharton studies, websites of central banks were used. See notes to Table A1.1.

²⁶ For example, the government of Zambia issues bonds and the Bank of Zambia conducts open market operations. However, the market for these bonds is narrow, limited to a few expatriate banks (Weeks, *et. al.* 2006, Chapter 6).

sterilization operations could be implemented. For several of the twenty-seven, exports would be exchange rate insensitive (e.g., Angola and Nigeria, petroleum exporters).

With regard to fiscal policy, the countries of the West African Economic and Monetary Union and Central African Economic and Monetary Community (so-called CFA zone) had restrictions on fiscal operations that required the governments to balance the annual current budget. The capital budget could be in deficit if the method of finance were specified. While this arrangement does not exclude a fiscal stimulus, in practice it greatly restricts it. The *sin qua non* of countercyclical intervention is that it can be initiated and terminated quickly in response to demand shocks. Capital expenditures lack this flexibility.

In addition to these primary institutional constraints on policy tools, there are the secondary ones stressed by the IMF, performance indicators. Some initial conditions would be so unfavourable as to render a stimulus package unwise because it would generate macro instability rather than recovery. In general, a stimulus policy should be consistent with a sustainable fiscal balance, manageable external current account and inflation which is not destabilizing. The initial values of these variables which are consistent with macroeconomic stability will depend on the structural and behavioural characteristics of each economy and the size of the stimulus to be implemented. In this context, the most important behavioural characteristics are the exchange rate elasticity of trade, the propensity to import, the income elasticity of public revenue, and the degree of structural inflation.

On the basis of the average import propensity and inflation rates for the region, and assuming low elasticities of trade and public revenue, the following performance guidelines are proposed. Prior to the implementation of the stimulus package,

1. the fiscal balance after concessional finance (ODA) should not exceed five percent of GDP;
2. the external current account deficit should be covered by ODA, and foreign exchange reserves should be at least three months of imports; and
3. inflation should not exceed fifteen percent per annum except in the case of a fiscal surplus.

Table 1.4 combines these performance constraints with the previously discussed institutional limits on policy implementation to identify the stimulus

packages that would be feasible in the sub-Saharan region. Whether it would be appropriate to do so requires individual country analysis. For eighteen countries it would be feasible to implement a combined fiscal expansion and exchange rate management package. Despite its high inflation rate of eighteen percent, Angola is included in this group because of the country's large fiscal and current account surpluses.

In most of these countries it would be possible to finance the increased expenditure by bond sales because of functioning financial markets. For some, for example, Angola, Comoros, Gambia and Tanzania, it would be necessary to monetize the increase in the fiscal deficit. With the exception of South Africa, in none of the countries is it likely that foreign exchange operations by the central bank would be a safe method of exchange rate management.

The practicality of implementing a stimulus is verified by three of these countries initiating such packages in 2009 or 2010.²⁷ The IMF supported the counter cyclical intervention in Mozambique, even though the government's fiscal deficit was over three percent of GDP and the external current account balance was almost minus nine percent of GDP. Almost all the countries in Table 1.1 that would use both fiscal and exchange rate instruments had smaller negative balances after ODA inflows.

For six countries exchange rate management would not possible due to currency arrangements, but their fiscal and current account balances allow for fiscal expansion (see Table 4). Fiscal expansion would threaten neither internal nor external stability. In ten countries a fiscal expansion would require external concessionary finance because of limits on deficit financing. In ten other countries the performance indicators do not justify a stimulus policy.

To summarize, in twenty-four of the forty-four countries, over half, a domestically financed fiscal stimulus would be feasible and justified by the most recent performance indicators. The performance indicators for ten more countries do not preclude a stimulus, but it would require external assistance because of the current account impact in the context of exchange rate inflexibility. Ten countries require stabilization program to move towards internal and external balance before a stimulus would be sustainable.

²⁷ These are Sierra Leone (Weeks 2009d), Mozambique (IMF 2009c) and Nigeria (Alabi and Adams 2010).

Table A1.1: Macroeconomic Indicators and Policy Tools Available to Sub-Saharan Governments, 2000s

Country	Monetary policy	Fiscal policy	Exchange rate policy	Fiscal deficit	Crr Acc deficit	Forex reserves	ODA/GDP	Inflation
Angola	NSM		Managed	6.5	19.3	4.2	0.9	18.2
Benin	NCB	Constrained	WAEMU	-0.2	-5.0	7.0	8.3	4.5
Botswana	NSM		Managed	11.4	18.4	21.3	0.7	14.5
Burkina Faso	NCB	Constrained	WAEMU	-5.0	-11.2	na	13.9	2.1
Burundi	NSM		Managed	-1.9	-13.7	4.1	46.8	13.5
Cameroon	NCB		CAEMC	4.1	-1.7	5.0	9.4	1.8
Cape Verde	LSM		Fixed (Euro)	-2.2	-10.2	3.3	11.7	4.3
Cen Afr Rep	NCB		CAEMC	-0.5	-8.2	na	8.8	3.6
Chad	NCB		CAEMC	-1.9	-2.0	na	6.5	10.7
Comoros	NSM		Fixed (Euro)	-2.0	-5.0	na	7.8	3.7
Congo DR	NSM		Managed	-2.0	-26.4	na	21.5	18.1
Congo, Rep	NCB		CAEMC	6.0	-8.0	3.4	3.3	7.5
Cote d'Ivoire	NCB	Constrained	WAEMU	-1.1	1.1	2.8	1.3	5.4
Eq Guinea	NCB		CAEMC	21.0	5.7	na	0.6	19.9
Eritrea	NSM		Fixed (US\$)	-30.0	-12.0	na	17.4	17.5
Ethiopia	NSM		Managed	-7.6	-8.2	2.1	13.7	16.8
Gabon	NCB		CAEMC	14.8	11.0	2.4	0.5	9.7
Gambia	NSM		Managed	0.5	-10.5	4.3	14.3	3.8
Ghana	LSM		Managed	-7.3	-11.3	3.2	8.5	5.8
Guinea	NSM		Fixed (US\$)	-3.3	-8.0	na	5.4	18.0
Guinea-B	NCB	Constrained	WAEMU	-19.1	2.4	na	28.9	5.8
Kenya	LSM		Managed	-2.6	-3.5	3.7	4.5	9.0
Lesotho	CMA		CMA (rand)	8.7	8.5	4.8	4.7	7.9
Liberia	NSM		Fixed (US\$)	0.3	-28.5	0.6	80.2	12.8
Madagascar	LSM		Managed	-2.6	-10.0	2.7	14.8	12.3
Malawi	LSM		Managed	-2.5	-5.5	na	21.0	13.4
Mali	NCB	Constrained	WAEMU	8.0	-6.2	4.6	14.2	6.1
Mauritania	NSM		Managed	-5.0	-20.0	na	10.2	15.1
Mauritius	LSM		Fixed (basket)	-2.7	-8.8	3.5	0.6	7.3
Mozambique	NSM		Managed	-3.4	-9.9	3.8	23.5	8.5
Namibia	LSM		CMA (rand)	-4.5	11.2	3.2	2.1	10.6
Niger	NCB	Constrained	WAEMU	12.5	-8.0	3.3	14.1	5.1
Nigeria	LSM		Managed	0.9	-5.3	9.5	1.7	9.6
Rwanda	LSM		Managed	-0.2	15.0	6.8	22.2	11.7
Senegal	NCB	Constrained	WAEMU	-1.5	-10.4	3.6	8.2	4.9
Seychelles	NSM		Fixed (basket)	-1.8	-16.3	0.9	0.8	4.2
Sierra Leone	NSM		Managed	-5.0	-8.6	4.3	29.4	11.7
South Africa	ESM		Managed	1.5	-7.4	na	0.3	9.0
Sudan	NSM		Managed	-0.4	-10.1	1.5	6.1	10.4
Swaziland	NSM, CMA		CMA (rand)	-2.8	-4.8	2.8	1.8	6.2
Tanzania	NSM		Managed	-3.5	-9.6	5.3	13.7	10.9
Togo	NCB	Constrained	WAEMU	-3.4	-15.3	2.1	4.2	1.8
Uganda	LSM		Managed	-1.0	-5.9	6.9	14.7	3.6
Zambia	LSM		Managed	-1.1	3.8	3.1	14.2	13.3
Totals	Feasible monetary policy 12/44	Feasible fiscal policy 37/44	Feasible exchange rate policy 27/44					

Notes to Table 1:

Countries omitted due to incomplete data: Djibouti, Sao Tome and Principe, Somalia and Zimbabwe.

Shaded cells indicate values or characteristics that restrict policy options.

Indicators (2006-07 or last two years that were available):

Fiscal deficit is the cash deficit as a percentage of GDP.

Crr Acc deficit is the current account of the balance of payments as percentage of GDP.

Forex reserves are central bank holding of foreign exchange measured in months of imports.

ODA/GDP is official development assistance (OECD definition) as percentage of GDP.

Inflation is the annual rate of change of the GDP deflator.

The first three cells of the final row give the number of countries out of the total for which each policy instrument is feasible. Fiscal expansion is judged as not feasible if: the fiscal deficit exceeds the share of ODA in GDP by more than five percentage points; the current account deficit exceeds the ODA share by more than five percentage points; foreign exchange reserves are less than three months of imports; and/or inflation exceeds fifteen percent.

Acronyms:

The so-called CFA franc zone is the West African Economic and Monetary Union (WAEMU, Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo). In addition to a common currency the governments of these countries are constrained to balance the current account of the public budget. The capital account can have a deficit if the method of funding the deficit is specified. The Central African Economic and Monetary Community (CAEMC, Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon) also has a common currency with a fixed parity to the euro. Both are commonly called the CFA franc. They are not freely interchangeable, except via euro convertibility that is guaranteed by the French Treasury, which holds at least sixty-five percent of the pooled reserves of each area.

CMA is Common Monetary Area, rand (South Africa, Lesotho, Namibia, Swaziland)

NCB is no central bank, including countries sharing a common central bank.

NSM is "no secondary market" which includes cases in which the government does not issue bonds, issues them but does not sell them on the open market, or sells them but there is no secondary (resale) market.

LSM is "limited secondary market" and refers to the number of buyers and sellers.

ESM is "effective secondary market".

Fiscal deficit includes grants and other revenue on income side.

Sources:

Monetary institutions: Wharton Financial Institutions Center of the University of Pennsylvania, all but Mauritius, Namibia, Nigeria and Seychelles, and <http://www.afdb.org/en/news-events/article/donor-workshop-on-african-bond-market-4443/>

Economic indicators: World Development Indicators 2009 and IMF country reports.

Table A1.2: Sub-Saharan Countries, Monetary Institutions, 2010

Category	Notes
Common Currency	(17) WAEMU, BEAC, CMA
National currency	(27) fixed or managed
No bond market	(16) no bonds or no re-sale market
Bond market	(11) formal re-sale market
Narrow	(10) usually commercial banks only
Effective	(1) South Africa

Table A1.3: Sub-Saharan Countries, Exchange Rate Regimes, 2010

Category	Notes
Common Currency	(17) WAEMU, BEAC, CMA
Single currency, fixed	(8) US\$ (3), Euro (2), basket (3), 3 with bond market
Single currency, managed	(19) 8 with bond market

Table A1.4: Sub-Saharan Countries, Fiscal Policy Summary, Late 2000s

Category	Countries
1. Excluded from domestic financing because constrained to balance current budget	(14) Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo, Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon
2. Excluded by fiscal deficit (Fiscal deficit - ODA) < (-5% GDP)*	(2) Eritrea, Ethiopia
3. Excluded by current account deficit (Current account - ODA) < zero*	(4) Guinea, Mauritania, Seychelles, Togo
4. Excluded by forex reserves (Forex reserves) < (3 months of imports)	(3) Liberia, Madagascar, Sudan
5. Excluded by inflation [Inflation over 15%]*	(2) Angola, Congo DR
<u>Feasible</u> : Domestically financed fiscal expansion with exchange rate management	(18) Angola, Botswana, Burundi, Cape Verde, Comoros, Gambia, Ghana, Kenya, Malawi, Mauritius, Mozambique , Nigeria , Rwanda, Sierra Leone , South Africa, Tanzania, Uganda, Zambia
<u>Feasible</u> : Domestically financed fiscal expansion, no exchange rate management [fiscal surplus, strong current account]	(6) Cameroon, Eq Guinea, Gabon, Lesotho, Namibia, Swaziland
<u>Feasible</u> : Externally financed fiscal expansion, no exchange rate management	(10) Benin, Burkina Faso, Cen Afr Rep, Chad, Congo Rep, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal
<u>No stimulus feasible</u> : excluded by fiscal deficit, current account deficit or inflation	(10) Eritrea, Ethiopia, Guinea, Mauritania, Seychelles, Togo, Liberia, Madagascar, Sudan, Congo DR

Countries in bold initiated fiscal stimulus in 2009 or 2010.

*Countries in previous categories excluded.

Annex 2 Statistical Annex

This annex provides the available statistics on total enumerated employment in Africa for those countries which have, or in most cases had, sufficient information to qualify as a time series. All the statistics are from the ILO Yearbook of Labour Statistics and the online database that replaced it. The definition of enumerated employment and of the labour force can vary by country, and are all clearly explained in the database. It is unlikely that the definitions allow for more than approximate comparisons across countries. The share of the labour force in enumerated employment, given in the first row of the tables, is indicative rather than precise. Statistics for twenty-three countries are provided. No other African country had data covering a period of more than five years. Very few countries had any data after 2000.

Table A2.1: GDP growth rates of sub-Saharan countries by export group and structural categories, 1990-2008

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All	0.5	1.6	-0.3	0.2	1.0	4.4	5.8	6.2	4.3	4.2	3.3	5.8	4.0	2.9	5.9	5.3	5.8	5.6	5.3
Energy	-1	2.8	.4	-2.0	3.6	5.8	7.2	13.8	7.3	6.1	3.9	11.6	6.8	6.0	12.5	7.3	6.1	8.8	6.1
Angola	-0.3	-1.2	-6.9	-24.7	3.5	10.4	11.2	7.9	6.8	3.2	3	3.1	14.5	3.3	11.2	20.6	18.6	20.3	14.8
Cameroon	-6.1	-3.8	-3.1	-3.2	-2.5	3.3	5	5.1	5	4.4	4.2	4.5	4	4	3.7	2.3	3.2	3.5	3.9
Chad	-4.2	8.5	8	-15.7	10.1	1.2	2.2	5.7	7	-0.7	-0.9	11.7	8.5	14.7	33.6	7.9	0.2	0.2	-0.4
Cen Afr Rep	-2.1	-0.6	-6.4	0.3	4.9	7.2	-4	5.3	4.7	3.6	2.3	0.3	-0.6	-7.6	1	2.4	4	4.2	2.8
Eq Guinea	3.3	-1.1	10.7	6.3	5.1	14.3	29.1	71.2	21.9	41.4	13.5	61.9	19.5	14	38	9.7	1.3	21.4	11.3
Gabon	5.2	6.1	-3.1	3.9	3.7	5	3.6	5.7	3.5	-8.9	-1.9	2.1	-0.3	2.5	1.3	3	1.2	5.6	2.1
Mozambique	1	4.9	-5.1	8.7	6.8	2.7	7.4	10.2	10.8	8.1	1.1	11.9	8.8	6	7.9	8.4	8.7	7	6.5
Nigeria	8.2	4.8	2.9	2.2	0.1	2.5	4.3	2.7	1.9	1.1	5.4	3.1	1.5	10.3	10.6	5.4	6.2	6.4	5.3
Sudan	-5.5	7.5	6.6	4.6	1	6	5.9	10.6	4.3	3.1	8.4	6.2	5.4	7.1	5.1	6.3	11.3	10.2	8.3
Minerals	.8	3.5	1.6	2.1	.7	4.2	5.3	3.6	4.8	3.8	3.5	5.1	3.7	4.8	4.7	5.4	5.8	3.1	4.9
Botswana	6.8	7.5	2.9	1.9	3.6	4.4	5.6	10.2	10.6	7.2	8.2	5.2	3.3	6.3	6.5	4.7	3	4.2	-1
Burk Faso	-0.6	9.1	0.2	3.5	1.3	5.7	11	6.3	7.3	7.4	1.8	6.6	4.7	8	4.6	6.4	5.5	3.6	4.5
Congo, Rep.	1	2.4	2.6	-1	-5.5	4	4.3	-0.6	3.7	-2.6	7.6	3.8	4.8	1.7	3.6	7.7	6.2	-1.6	5.6
Guinea	4.3	2.6	3.3	5	4	4.6	5.2	4.7	4.8	4.7	1.9	4	4.2	2	2.7	3.3	2.2	1.5	8.4
Mali	-1.9	1.6	8.3	-2.1	0.9	6.2	3.2	6.8	6	6.7	3.2	12.1	4.2	7.4	2.2	6.1	5.3	2.8	5
Mauritania	-1.8	1.8	1.9	5.9	-3.1	9.8	5.8	-4	2.8	6.7	1.9	2.9	1.1	5.6	5.2	5.4	11.7	1.9	..
Namibia	2.5	8.2	7.2	-2	7.3	4.1	3.2	4.2	3.3	3.4	3.5	1.2	4.8	4.2	12.3	2.5	7.1	4.1	2.7
Niger	-1.3	2.5	-6.5	1.4	4	2.6	3.4	2.8	10.4	-0.6	-1.4	7.1	3	4.4	-0.8	7.4	5.8	3.3	9.5
Agriculture	3.2	2.1	1.3	1.0	3.4	5.0	5.7	5.3	.8	4.8	3.4	3.7	.3	3.8	4.5	4.4	5.1	5.0	4.8
Benin	3.2	4.7	4.0	3.5	4.4	4.6	5.5	6.1	4.5	4.7	5.8	5.0	4.5	3.9	3.1	2.9	3.8	4.6	5.1
Cote d'Ivoire	-1.1	.0	-.2	-.2	.8	7.1	7.7	5.7	4.8	1.6	-3.7	.0	-1.4	-1.6	1.8	1.3	.7	1.7	2.2
Gambia, The	3.6	3.1	3.4	3.0	.2	.9	2.2	4.9	3.5	6.4	5.5	5.8	-3.3	6.9	7.1	5.1	6.5	6.3	5.9
Ghana	3.3	5.3	3.9	4.8	3.3	4.1	4.6	4.2	4.7	4.4	3.7	4.0	4.5	5.2	5.6	5.9	6.4	6.1	6.2
Guinea-B	6.1	5.1	1.1	2.1	3.2	4.4	11.6	6.5	-28.1	7.8	7.5	.2	-7.1	-7.1	-.6	2.2	3.5	.6	2.7
Kenya	4.2	1.4	-.8	.4	2.6	4.4	4.1	.5	3.3	2.3	.6	3.8	.5	2.9	5.1	5.8	6.4	7.0	3.6
Madagascar	3.1	-6.3	1.2	2.1	-1	1.7	2.1	3.7	3.9	4.7	4.8	6.0	-12.7	9.8	5.3	4.6	5.0	6.2	6.9
Senegal	-.7	2.6	1.2	1.3	.0	5.4	2.0	3.1	5.9	6.3	3.2	4.6	.7	6.7	5.9	5.6	2.4	4.7	2.5
Tanzania	7.0	2.1	.6	1.2	1.6	3.6	4.5	3.5	3.7	3.5	5.1	6.2	7.2	5.7	6.7	7.4	6.7	7.1	7.5
Togo	-.2	-.7	-4.0	-15.1	15.0	7.8	8.8	14.4	-2.3	2.5	-.8	-.2	4.1	2.7	3.0	1.2	3.9	1.9	1.1
Uganda	6.5	5.6	3.4	8.3	6.4	11.5	9.1	5.1	4.9	8.1	5.6	4.9	6.4	6.5	6.8	6.3	10.8	8.6	9.5

Table A2.1: growth rates of sub-Saharan countries by export group and structural categories, 1990-2008, continued

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Conflict	-6.2	-2.8	-10.8	-4.0	-6.0	3.1	6.6	2.5	5.3	2.3	1.9	5.5	6.3	-4.0	4.8	4.7	6.1	6.6	6.8
Burundi	3.5	5.0	1.0	-6.2	-3.8	-7.9	-8.0	-1.6	4.8	-1.0	-9	2.1	4.4	-1.2	4.8	.9	5.1	3.6	4.5
Congo DR	-6.6	-8.4	-10.5	-13.5	-3.9	.7	-1.0	-5.6	-1.6	-4.3	-6.9	-2.1	3.5	5.8	6.6	7.9	5.6	6.3	6.2
Eritrea	..	..	..	13.5	21.2	2.9	9.3	7.9	1.8	.0	-13.1	8.9	3.0	-2.7	1.5	2.6	-1.0	1.3	2.0
Ethiopia	2.7	-7.1	-8.7	13.1	3.2	6.1	12.4	3.1	-3.5	5.2	6.1	8.3	1.5	-2.2	13.6	11.8	10.9	11.1	11.3
Liberia	-51.0	-14.2	-35.1	-33.0	-21.8	-4.3	12.1	16.3	29.7	22.9	25.7	2.9	3.7	-31.3	2.6	5.3	7.8	9.4	7.1
Rwanda	-2.4	-2.5	5.9	-8.1	-50.2	35.2	12.7	13.8	8.9	7.6	8.1	8.5	11.0	.3	5.3	7.1	7.3	7.9	11.2
Sierra Leone	3.4	2.3	-19.0	1.4	-1.9	-8.0	5.0	-16.7	-.8	-8.1	3.8	18.2	27.5	9.3	7.5	7.2	7.3	6.8	5.1
Zimbabwe	7.0	5.5	-9.0	1.1	9.2	.2	10.4	2.7	2.9	-3.6	-7.9	-2.7	-4.4	-10.4	-3.8	-5.3	..	..	..
Small states	4.3	-.4	6.3	5.4	.3	3.4	2.5	7.1	5.6	4.4	3.9	1.6	5.4	2.1	.7	6.0	6.8	5.2	3.9
Cape Verde	.7	1.4	3.3	7.1	6.9	7.5	4.0	5.4	7.4	8.6	6.6	3.8	4.6	6.2	-.7	6.5	10.8	6.9	6.0
Comoros	5.1	-5.4	8.5	3.0	-5.3	3.6	-1.3	4.0	.9	2.9	.9	3.3	4.1	2.5	-.2	4.2	1.2	.5	1.0
ST&P	..	..	..	..	..	..	..	..	..	..	..	..	11.6	5.4	6.6	5.7	6.7	6.0	5.8
Seychelles	7.0	2.8	7.2	6.2	-.8	-.8	4.9	12.0	8.4	1.9	4.3	-2.3	1.2	-5.9	-2.9	7.5	8.3	7.3	2.8
Other	3.8	2.6	3.5	3.5	4.6	3.6	4.8	4.0	2.3	3.2	4.2	3.8	2.7	3.4	4.7	3.4	5.7	4.9	4.1
Lesotho	6.0	2.9	7.2	3.5	6.0	3.5	4.9	3.6	.3	1.3	4.5	3.0	1.6	3.9	4.6	.7	8.1	5.1	3.9
Mauritius	5.8	5.8	5.4	5.9	4.5	4.1	5.2	5.9	6.0	5.8	4.0	5.6	2.7	3.2	4.7	4.6	3.6	4.7	5.3
Swaziland	-.3	-1.0	-2.1	1.2	3.2	3.1	4.3	2.6	.5	2.4	4.2	2.7	3.7	3.1	4.9	5.0	5.3	5.1	3.1

Source: World Development Indicators 2009 online.

Table A2.2: Indices of total paid employment, African countries with statistics, 1977-2008

Year	<u>Benin</u>	<u>Botswana</u>	<u>Burk F</u>	<u>Burundi</u>	<u>CAR</u>	<u>Chad</u>	<u>Cote d'Iv</u>	<u>Gambia</u>	<u>Ghana</u>	<u>Kenya</u>
% LF	4	31	1	2		1	10	7	9	14
1977	78	30	na	73	139	na	na	114	na	64
1978	84	33	na	80	164	na	na	na	na	65
1979	86	37	na	85	151	na	na	123	na	69
1980	130	40	na	80	96	na	na	na	na	72
1981	137	34	na	99	123	na	na	na	na	73
1982	144	35	na	104	113	na	na	na	na	74
1983	159	34	na	86	117	na	107	95	156	78
1984	144	37	na	93	na	na	103	100	226	79
1985	159	56	na	94	132	89	100	78	233	83
1986	151	62	84	100	107	89	101	70	207	87
1987	152	72	88	105	118	88	100	84	198	90
1988	154	81	91	114	111	108	100	98	153	93
1989	92	84	96	103	92	113	98	102	107	96
1990	100	100	100	100	100	100	95	100	100	100
1991	102	107	104	94	80	126	-1.3	nsgn	87	103
1992	110	109	107	+2.0	93	na	@.00		nsgn	104
1993	nsgn	na	+4.1	@.01	-3.1	na				105
1994		na	@.00		@.01	na				107
1995		na				na				111
1996		180				155				114
1997		na				136				117
1998		211				+4.4				118
1999		na				@.00				119
2000		220								119
2001		242								+3.9
2002		na								@.00
2003		229								
2004		na								
2005		na								
2006		213								
2007		+8.5								
		@.01								

Table A2.2: Indices of total paid employment, African countries with statistics, 1977-2008, continued

% LF	Malawi	Mauritius	Niger	Senegal	Seychelles	SoAfrica	Swaziland	Togo	Zambia	Zimbabwe
	13	55	1		75	48	27	4	12	16
1977	68	69	122	82	68	87	72	na	102	85
1978	75	70	144	na	66	85	78	79	102	82
1979	78	70	144	na	71	86	79	80	103	82
1980	78	70	103	na	76	91	82	na	105	85
1981	70	68	136	85	74	94	87	110	104	87
1982	69	68	102	89	78	96	84	117	102	88
1983	82	67	80	na	74	95	86	108	101	87
1984	82	67	85	na	76	96	84	107	101	87
1985	88	72	89	65	78	95	79	108	100	88
1986	91	79	104	66	80	96	83	112	100	90
1987	87	86	111	na	83	98	91	111	100	91
1988	91	93	103	na	90	100	94	102	100	95
1989	93	95	111	na	95	101	99	100	99	98
1990	100	100	100	100	100	100	100	102	100	100
1991	119	101	96	101	102	98	100	106	+1.0	104
1992	117	103	nsgn	+3.2	104	96	100	104	@ .00	103
1993	125	102		@.00	108	94	98	98		103
1994	140	103			108	99	95	94		105
1995	150	102			110	99	95	87		103
1996	+2.4	101			112	99	98	86		106
1997	@.00	101			121	97	96	-0.3		110
1998		103			125	94	95	@.00		112
1999		105			132	92	97			109
2000		105			137	89	100			103
2001		-2.0			141	82	nsgn			98
2002		@.01			150	83				89
2003					146	83				+0.6
2004					nsgn	85				@ .00
2005						90				
2006						94				
2007						97				
2008						100				
						+1.2				
						@.00				

Source: <http://laborsta.ilo.org/>

Note: %LF refers to share of wage labour in the labour force.

Table A2.3: Overall fiscal balance including external grants, 36 countries for which data are available, 1994-2007

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Benin	..	-7.3	-8.0	-4.6	-2.4	-3.2	-.4	.3	2.1	1.9
Botswana	19.1	16.9	9.9	8.4	1.6	2.0	7.8	5.0	-6.0	6.4
Burkina Faso	..	..	..	..	-3.7	-1.9	-.6	-3.2	-2.9	-3.5
Burundi	..	-2.3	-2.9	-3.6	-4.3	-4.9	-10.1	-5.3	-5.2	-6.7
Cameroon	-5.6	-4.5	-1.9	-1.5	-2.4	.2	.0	-.7	-1.5	-3.0
CAR	..	..	-4.4	-4.0	-3.5	.0	1.0	.6	-8.8	-8.8
Chad	..	..	..	..	-4.7	-4.4	-5.0	-3.8	-1.4	-10.7
Congo, Rep.	..	..	..	..	-7.0	-8.3	-10.9	-9.1	-20.3	-6.3
Cote d'Ivoire	..	..	..	..	-6.5	-4.1	-2.2	-2.3	-2.4	-3.0
Eq Guinea	..	..	-3.3	-8.4	-2.5	-5.1	-5.3	-1.1	-1.9	-.1
Ethiopia	..	..	-5.9	-7.7	-3.9	-5.6	-2.3	-4.3	-10.4	-11.2
Gabon	..	..	-5.2	-5.7	-1.6	.6	-1.2	-.1	-10.9	1.3
Gambia	-4.2	-4.4	-2.2	1.0	-3.3	-9.9	-9.7	-6.5	-2.4	-3.5
Ghana	..	-1.4	-9.4	-10.4	-9.3	-6.7	-10.4	..	..	..
Guinea	..	-4.6	-3.5	-3.8	-3.6	-2.7	-3.0	-2.9	-4.3	-2.4
Guinea-B	..	..	..	..	-6.1	-2.1	-12.1	-13.8	-16.3	-9.6
Kenya	..	2.9	-9.6	-6.6	-1.1	-.2	-2.9	-1.7	.0	.7
Lesotho	-5	.0	2.4	2.3	3.9	2.8	3.0	1.8	-2.8	-16.2
Madagascar	..	..	..	..	-8.4	-6.2	-4.9	-2.4	-4.7	-1.2
Malawi	..	..	-12.0	-5.3	17.1	-5.8	-2.8	-5.6	-5.1	-5.6
Mali	..	..	..	..	-18.6	-3.4	-9.0	-2.2	-2.4	-3.7
Mauritania	..	..	..	..	-4.4	-5.0	-.5	-2.0	-3.3	-3.3
Mauritius	.3	.6	-.2	.5	-.1	-1.3	-3.5	-2.3	-1.0	-2.1
Mozambique	..	..	-7.0	17.1	21.5	-5.0	-5.2	-2.5	-2.4	-1.5
Namibia	..	-2.6	-5.0	-3.5	-1.7	-3.8	-6.3	-3.6	-4.5	-2.8
Niger	..	..	..	..	-6.7	-3.9	-.4	-3.0	-2.8	-5.9
Nigeria	..	..	..	..	10.0	7.1	4.9	1.4	-4.9	.6
Rwanda	-5.4	-3.3	-5.6	-8.2	-11.6	-2.4	-5.7	-2.5	-2.9	-3.8
Senegal	..	..	..	..	-1.9	-.2	-.1	.5	-.3	-1.4
Seychelles	..	..	..	-4.9	-1.5	-4.3	-13.2	-13.9	-15.0	-11.2
South Africa	..	-4.5	-8.4	-9.1	-5.1	-4.5	-4.6	-3.8	-2.3	-2.0
Swaziland	..	..	-3.6	-5.1	-5.5	-.3	-1.3	2.8	.5	-1.5
Tanzania	2.7	2.7	3.8	3.8	2.0	2.2	3.6	3.0	4.0	4.5
Togo	..	..	..	..	-11.7	-6.5	-4.7	-2.2	-5.7	-2.2
Uganda	..	-9.3	-3.4	-4.1	-3.1	-2.1	-1.9	-1.1	-2.7	-9.1
Zambia	-8.3	-7.2	-2.5	-5.6	-6.8	-3.8	-5.4	-4.1	-8.0	-4.0

Table A2.3: Overall fiscal balance including external grants, 1994-2007, continued

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Benin	-1.4	-.8	-.1	-1.8	.9	-.6	.3	..
Botswana	9.3	-4.0	-5.7	-1.0	.9	6.7	10.7	8.2
Burkina Faso	-4.2	-5.0	..	..	-4.4	-3.9	-6.1	..
Burundi	-1.9	-5.2	-1.6	-2.5	-3.5	-2.9	-1.9	.7
Cameroon	1.2	1.8	.5	.7	-.8	3.0	5.0	..
CAR	-6.6	-4.3	-1.2	-3.1	-2.2	-4.6	7.7	..
Chad	-12.5	-10.3	-12.1	-14.1	-6.0	-5.8	1.0	2.7
Congo, Rep.	.8	-1.3	-5.2	6.4	-3.5	9.6	17.1	..
Cote d'Ivoire	-1.3	-1.2	1.7	-2.5	-1.7	-1.5	-1.4	-.8
Eq Guinea	8.4	15.5	16.8	11.7	12.2	20.4	23.4	19.2
Ethiopia	-5.5	-7.6	-7.0	-3.2	-4.7	-3.9	-3.1	..
Gabon	4.1	6.3	3.4	7.4	7.4	8.0	9.0	..
Gambia	-1.8	-14.4	-4.4	-4.7	-5.7	-8.6	-7.1	.2
Ghana	-7.9	-6.5	-5.0	-3.6	-1.4	-1.4	-6.7	-7.7
Guinea	-3.1	-4.1	-6.2	-8.9	-5.9	-2.1	-4.3	..
Guinea-B	-7.6	-17.1	-16.1	-21.4	-21.4	-19.2	-18.0	..
Kenya	-2.0	-2.3	-3.9	-1.7	-.1	-1.7	-2.5	-3.2
Lesotho	-2.3	.6	-3.8	-.4	5.6	4.8	13.4	15.1
Madagascar	-.6	-3.9	-4.4	-3.7	-4.5	-4.6	-.4	-2.7
Malawi	-5.8	-7.9	-12.1	-4.7	-4.8	-1.1	-1.3	-2.8
Mali	-4.0	-4.2	-4.2	-1.4	-3.0	-2.5	-1.0	-5.6
Mauritania	-6.0	-10.3	-2.9	-11.8	-4.8	-7.0	-6.0	..
Mauritius	-1.1	-4.0	-3.7	-3.4	-3.1	-2.1	-3.0	-2.3
Mozambique	-5.6	-6.6	-7.9	-4.2	-4.4	-2.2	-1.4	-5.6
Namibia	-2.6	-2.8	-.9	-6.2	-3.4	.5	3.3	..
Niger	-2.8	-5.4	-3.5	-3.2	-2.8	-1.9	5.0	-.9
Nigeria	8.2	1.0	-1.0	2.0	6.4	7.0	-1.1	3.0
Rwanda	.7	-1.1	-1.1	-2.1	-.2	.6	-.4	-.6
Senegal	-.8	-1.2	-.1	-1.4	-3.1	-3.5	-5.7	-3.7
Seychelles	-13.9	-8.8	-14.4	10.6	3.0	2.5	2.3	-6.0
South Africa	-2.0	-1.6	-1.6	-2.0	-1.6	-.6	.4	.9
Swaziland	-1.4	-2.5	-3.6	-2.9	-4.7	-1.6	10.4	-.4
Tanzania	3.7	-1.1	-2.6	-1.2	-2.7	-2.8	-4.7	-3.9
Togo	-5.3	-4.2	..	..	-.3	-5.8	-3.5	-.8
Uganda	-2.6	-5.3	-5.7	-4.3	-1.7	-.6	-.8	-2.3
Zambia	-7.0	-6.9	-5.6	-6.0	-2.9	-2.7	-2.0	-1.7

Sources: The statistics are taken from country reports on the IMF website, where there each country has a separate listing (see <http://www.imf.org/external/country/index.htm>). Because in most cases each report provides data for about five years, several reports for each country were used, too numerous to list (over 150 in all). The names of the reports that provide the fiscal statistics are standard: “Selected Issues and Statistical Appendix”, “Statistical Appendix”, and “Statistical Annex”. In some cases it was necessary to use the “Review” documents (e.g., *Benin: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Augmentation of Access - Staff Report*, 2009). The compiled table in the World Bank’s World Development Indicators is incomplete. It is also unreliable because all of the statistics do not use the same definition of the fiscal balance. The compiled tables in the IMF’s *Government Financial Statistics* are less complete than the country reports. Care was taken to ensure consistency in the table, the numbers must be used with care. The most serious source of concern about reliability arises from the changes in reported numbers for the same year from one IMF report to a later one. Some of the changes would seem too large to be explained by more accurate subsequent calculation.

Notes : The statistic is the “overall fiscal balance including grants” as defined by the IMF. This includes current and capital expenditure, plus “on-lending”. The revenue side includes taxes and fees plus the grant component of official inflows. The numbers we adjusted to include only the current cash flow arising from debt relief. Without this adjustment the statistics for 2005-2007 can be extremely misleading. All of the conflict countries are excluded, usually because of very limited availability of information. These countries, for which there are statistics for a few years, are: Angola, Democratic Republic of Congo, Eritrea, Liberia, Sierra Leone, Somalia, Sudan and Zambia. Also exclude because of limited information are Cape Verde, Comoros and Sao Tome and Principe

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