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AFRICAN DEVELOPMENT BANK GROUP

AFRICAN ECONOMIC OUTLOOK 2010

The 60-second guide

The 2010 *African Economic Outlook* finds the continent reeling from the effects of the world's deepest and most widespread recession in half a century. Many countries are at risk of falling far off track to achieving the Millennium Development Goal of halving extreme poverty and hunger by 2015. Just how hard was the region hit? What are the prospects for recovery? Insights and answers in this edition including an in-depth study of Taxation and Aid in Africa.

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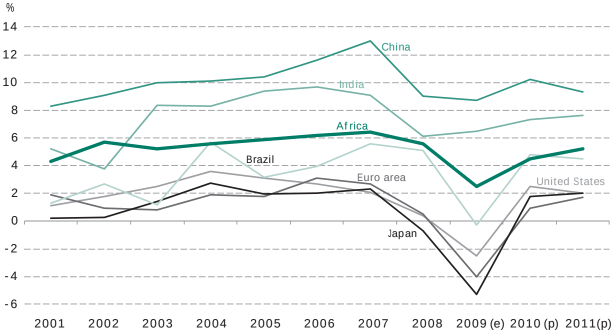
HOW RESILIENT WERE AFRICAN ECONOMIES TO THE CRISIS?

The global crisis slashed average economic growth from about 6% between 2006-08 to 2.5% in 2009 with real per capita GDP growth coming to a near standstill. Yet due to past fiscal prudence and disinflation, most African countries were able to absorb the shock and, in some cases, to pursue expansionary fiscal and monetary policies. Africa's strengthening economic ties with Asia — which continued to grow rapidly — also cushioned the impact of the OECD slowdown on the region. Finally, Africa was able to count on timely support from the African Development Bank and the International Monetary Fund, as well as from OECD countries in the form of Official Development Assistance.

Africa's GDP Growth: A Comparative Analysis



Source: OECD, AfDB, WEO.

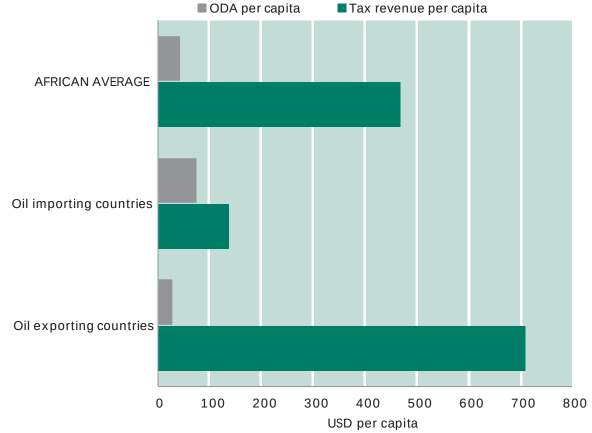
DID YOU KNOW?
80% of the African countries covered in the AEO registered positive growth in 2009 as compared to only 10% of OECD countries.

WHAT CAN THE REGION LEARN FROM THE DOWNTURN?

Although not of Africa's making, the crisis has revealed the continent's over-dependence on external flows for its revenues. Initial estimates were that, given Africa's low exposure to international capital markets, the region would emerge relatively unscathed. However, many countries suffered the blow of faltering remittance flows, a slowdown in foreign direct investment, falling export demand from Europe and the Americas and declining commodity prices. The continent's fiscal balance has fallen from a surplus of more than 2% in 2008 to a deficit larger than 4% in 2009. This revealed how crucial it will be for African governments to improve their capacity to mobilise domestic resources, particularly through taxation, to buffer against future external shocks.

DID YOU KNOW?
Africa is one of the most undiversified regions in the world: approximately 80% of its exports are based in oil, minerals and agricultural goods.

Tax Revenue vs. Aid per capita in Africa



Source: : OECD Development Centre, based on OECD/DAC and AEO Country Survey data.

HOW WELL ARE AFRICAN GOVERNMENTS MOBILISING DOMESTIC RESOURCES FOR DEVELOPMENT?

It depends. Oil producers such as Equatorial Guinea and Libya collect enough taxes to potentially graduate from aid and make a real attempt at poverty reduction. But lower-income countries such the DRC, Ethiopia, Guinea-Bissau and Sierra Leone, with taxes per capita in 2008 as low as 20 to 40 USD, will remain dependent on aid for years. Policy options for reducing this dependence include removing tax preferences, particularly for large corporations and traders, dealing with transfer pricing abuses by multinationals and taxing extractive industries more fairly and transparently.

DID YOU KNOW?
Low Income Countries in Africa still collect less than 15% of GDP in taxes while Upper Middle Income countries collect 35%, almost on par with OECD countries.

CAN MOST AFRICAN COUNTRIES DO AWAY WITH AID RELATIVELY SOON?

On average in the region, 441 USD of taxes are collected per person per year while 41 USD of aid is received per person per year. In other words, if Africa were a single country, collected taxes represent more than ten times the amount of aid the region receives. However, many individual countries remain highly dependent on aid: in one-quarter aid exceeds tax revenues; and in half, aid is larger or equal to half of tax revenues. The challenge is for these countries to make aid work itself into redundancy through public resource mobilisation.

DID YOU KNOW?
Resource-related taxes have increased from 5 to 15% of GDP over the last 15 years. In Equatorial Guinea alone, over 95% of taxes collected come from natural resources.