

# Economic Outlook for ADF-Eligible Countries

Overview paper

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**AFRICAN DEVELOPMENT FUND**

## Table of Contents

<b>Abbreviations</b> .....	<b>iii</b>
<b>Executive Summary</b> .....	<b>iv</b>
<b>1 Introduction</b> .....	<b>1</b>
<b>2 Economic Performance and Growth Prospects</b> .....	<b>1</b>
<b>3 Macroeconomic Stability</b> .....	<b>3</b>
<b>4 Development Finance in ADF-Eligible Countries</b> .....	<b>5</b>
<b>5 Evolution and Sustainability of Debt in ADF-Eligible Countries</b> .....	<b>3</b>
<b>6 The Big Picture: The Road to Sustainable Development Goals</b> .....	<b>7</b>
<b>7 Conclusion</b> .....	<b>8</b>

### Annexes Tables:

TABLE A. DEBT RISK IN ADF COUNTRIES IN 2015 .....	10
TABLE A1. MACROECONOMIC INDICATORS –ADF RECIPIENT COUNTRIES .....	12
TABLE A2. TAX REVENUE (AS A % OF GDP) ACROSS ADF-ONLY COUNTRIES .....	12
TABLE A3. SAVING AND INVESTMENT (% GDP) .....	14
TABLE A4. DOMESTIC DEBT (% OF GDP) .....	15
TABLE A5. ESTIMATING THE FINANCING GAP TO DOUBLE GDP, TO ACHIEVE SDGS.....	16
TABLE A6. EXTERNAL DEBT STOCK (% OF GNI).....	17
TABLE A7. INTENDED USE OF SOVEREIGN BOND ISSUES IN SELECTED ADF COUNTRIES.....	18
TABLE A8. SOVEREIGN BOND ISSUES BY ADF COUNTRIES (2013-2015).....	19

### List of figures

FIGURE 2.1. MEDIUM TERM ECONOMIC GROWTH PROSPECTS .....	2
FIGURE 3.1: CURRENCY MOVEMENTS IN ADF COUNTRIES (INDEX 2005M1).....	4
FIGURE 4.1. EXTERNAL FLOWS TO ADF ELIGIBLE COUNTRIES .....	1
FIGURE 5.1: EVOLUTION OF DOMESTIC DEBT TO GDP IN ADF COUNTRIES .....	4
FIGURE 5.2: CHANGE IN EXTERNAL DEBT TO GDP RATIO IN SELECTED ADF COUNTRIES (2010-2015) .....	5
FIGURE 5.3: EVOLUTION OF EXTERNAL DEBT IN ADF COUNTRIES (PERCENTAGE POINTS) .....	5

### List of Tables

TABLE 3.1 EVOLUTION OF TWIN DEFICITS AND INFLATION IN ADF-ELIGIBLE COUNTRIES .....	5
TABLE 4.1 TRENDS IN MANUFACTURING EXPORTS (% MERCHANDISE EXPORTS) .....	6
TABLE 4.2 TOP-TEN DESTINATIONS BY NET FDI FLOWS IN AFRICA (2010-2014).....	2
TABLE 4.3 TOP-TEN DESTINATIONS OF REMITTANCE INFLOWS IN AFRICA (AVERAGE 2010-2014) .....	2

## Abbreviations

ADF	African Development Fund
ADF-14	Fourteenth African Development Fund
DSA	Debt Sustainability Assessment
DSF	Debt Sustainability Framework
EIU	Economist Intelligence Unit
GDP	Gross Domestic Product
IMF	International Monetary Fund
RMC	Regional Member Country
TYS	Bank's Group Ten Year Strategy
SDGs	Sustainable Development Goals
UA	Unit of Account
USD	United States Dollars

## Executive Summary

1. The medium term prospects for ADF countries seem favourable. GDP growth is expected to accelerate to 5.3% and 5.6% in 2016 and 2017, respectively, from 4.1% in 2015 – suggesting underlying resilience in the face of global and regional shocks. In recent years, the drivers of growth in ADF countries have included improved macroeconomic management; strong domestic demand; positive structural change and increased external financial flows, particularly FDI and remittances.
2. However, the unfolding global and regional shocks could have larger macroeconomic implications for ADF countries. The continuous fall in commodity prices, weakening global trade and idiosyncratic shocks such as severe weather patterns, conflict, and terrorism, have put pressure on the fiscal and current account balances of ADF countries. The current account and fiscal deficits widened to 9.8% in 2015 from 6% in 2014 and they are projected to persist in the 2016-2018 period. Resources required to contain these twin deficits are estimated at about USD 40 billion per annum. This implies that strong fiscal consolidation efforts, exchange rate adjustments and other non-inflationary and non-contractionary solutions of finance are required to avoid growth reversal. Likewise, development partners should keep supporting some of the most vulnerable countries through countercyclical interventions to enable them to weather the storm.
3. Domestic resource mobilization has improved in recent years in some ADF countries. However, the level falls short of what is commonly considered a minimum threshold to underpin growth of GDP by 5% or above. The situation is not expected to change much over the medium term. To bridge the gap, and meet their growing investment and infrastructure needs, a number of countries have sought recourse to international capital markets. This financing avenue is expected to be tougher in the medium term.
4. Although debt patterns and their consequences on macroeconomic conditions of ADF countries remain unpredictable in the medium-term, they could be very significant. While the average debt to GDP ratio has remained low and stable in ADF countries, it has also varied considerably between countries and over time for each country. Non-concessional financing accessed by ADF countries from international capital markets has increased in recent years -- signalling both increased demand for financing projects in strategic sectors, even at a very high cost, and underlying structural weaknesses to buffer shocks. Whereas our analysis indicates that the level of current external debt is sustainable, except in a few countries, there are emerging concerns over the ability of countries to take on more debt, especially given the tightening global financing conditions.
5. Going forward, the more long-term fight to end hunger and poverty, and reduce inequality, in ADF countries will only be won through sustained and rapid economic transformation as enshrined in the SDGs. However, the financing needed by ADF countries to accelerate towards the SDGs remains large. We estimate that on an average, ADF countries require additional financing of 11.3% of GDP annually in the next ten years to change the course of growth from its current state to a higher and more sustainable level. This is approximately USD 130 billion per year at the current GDP level. There also exist opportunities in ADF countries that would allow growth to leap forward, if fully harnessed. These include a growing and vibrant private sector, supported by improvement in investors' confidence, an expanding middle class, and a young labour force, with the attendant demographic dividend this entails.

## Overview paper: Economic Outlook for ADF-Eligible Countries

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### Key messages

- 1) *Economic growth projections for 2016-2018 indicate that ADF countries will grow above 5% despite global and regional shocks. However, falling commodity prices, weakening international trade and idiosyncratic shocks such as drought and terrorism, will continue to pose significant macroeconomic risks. The fiscal and current account deficits—which have widened from 6% in 2014 to 9.8% in 2015—are expected to persist in the medium term implying a financing need of about 40 billion USD annually to contain them at the 2014 levels. Without countercyclical funding, the macroeconomic crisis could transform into a growth crisis.*
- 2) *Although domestic resource mobilization has improved in recent years in some ADF countries, the levels still fall short of what is commonly considered the minimum threshold to spur a GDP growth rate of 5% or above. This is unlikely to change significantly in the short-term. Debt levels have also remained low and constant in recent years for ADF countries but with significant variation across countries and over time for individual countries suggesting unpredictability in debt patterns.*
- 3) *Realization of the full potential of ADF countries is dependent on the effective implementation of the targets set in the SDGs. These countries will require bold and coordinated actions as well as ample financial resources. We estimate that on average ADF countries require USD 130 billion annually over the next ten years to move their current growth trajectory to a higher and more sustainable one.*

## 1 Introduction

This paper responds to the request by ADF Deputies for an economic outlook of the African Development Fund (ADF) countries, to inform discussions during the first meeting of the Fourteenth Replenishment of African Development Fund (ADF-14). The paper specifically reviews recent economic performance and growth prospect in ADF countries in light of evolving global headwinds and the implications for macroeconomic stability. It also explores the progress ADF countries have made in recent years to mobilize resources from domestic as well as external sources to finance development, and presents debt sustainability issues in some detail. Finally, the paper also briefly discusses the challenge of achieving the targets set in the SDGs in ADF countries, and the implications for development finance.

## 2 Economic Performance and Growth Prospects

### Highlights

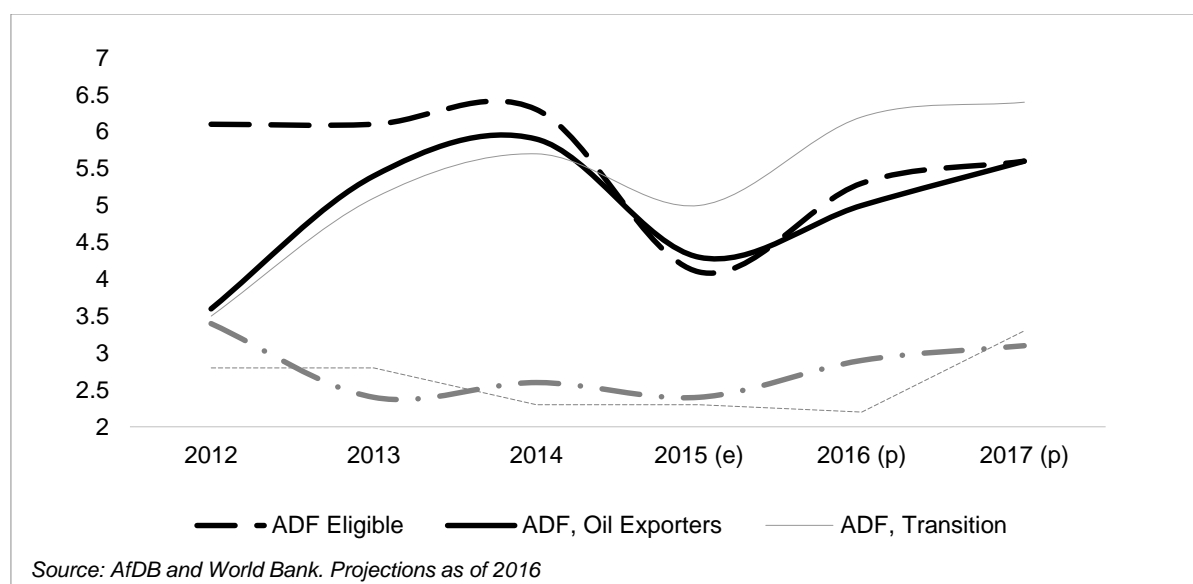
- *GDP growth in ADF countries is expected to accelerate to 5.3% in 2016 and 5.6% in 2017 from 4.1% achieved in 2015, despite a weakening global economic environment.*
- *Growth resilience will come from strong domestic demand, particularly private consumption and public investment. The contribution of net exports to GDP growth will continue to be negative as a result of rapidly declining commodity prices.*

## 2.1 Resilient economic growth so far despite global and regional headwinds:

Over the past decade and a half, ADF countries have enjoyed high economic growth by historical standards. Average Gross Domestic product (GDP) growth increased from just above 2% in the 80s and 90s to above 5% between 2001 and 2014. This growth performance has only been second to that of emerging and developing Asia. ADF countries grew in real terms by 6.3% and 4.1% in 2014 and 2015, respectively. This was higher than Africa's average growth rate of 3.8% in 2014 and 3.5% recorded in 2015.

**Weaker growth in 2015 is attributed to a global slowdown that resulted in sharp decline in the prices of key commodities.** Some ADF countries continue to remain resilient in spite of tepid global growth. Notably, Ethiopia, Rwanda and Tanzania grew by more than 7% in 2015 supported by continued infrastructure investment. Mozambique and Democratic Republic of Congo grew at 6% and 7.7% respectively due to large investments in the mineral and gas sectors. Figure 2.1 shows the trends in GDP growth in different groups of ADF eligible economies, ADB eligible economies, and the world

**Figure 2.1. Medium Term Economic Growth Prospects**



**Key drivers of growth in ADF countries include strong domestic demand, particularly rapid expansion in public investment, gradually improving structural change, prudent macroeconomic management and favourable external market conditions.** Most ADF countries have implemented reforms that have created a stable macroeconomic environment conducive for investment. There are improvements in overall public sector governance across the countries and political stability is now firmly entrenched, even though pockets of instability remain in some places. Improvement in the investment climate has been further bolstered by increased public investment in infrastructure, especially in transport and energy, even though there are still glaring gaps. In addition, foreign direct investment increased sharply over the past decade and half. Although the bulk of the FDI inflows were in extractive sectors, significant inflows were also drawn into non-resource sectors, notably in retail and services sectors. Remittances have impacted positively on economic growth in ADF countries, providing a much needed lifeline particularly for the poor.

## 2.2 Medium term growth prospects in ADF countries remain fair but vulnerable:

**Medium-term growth prospects in most ADF countries will remain fair under the assumption that global trends do not deteriorate significantly.**<sup>1</sup> Growth is projected to accelerate to 5.3% in

<sup>1</sup> Growth rates in GDP for 2015 are estimates by the Bank. Forecast was made for 2016 and 2017. We also used

2016 and 5.6% in 2017. However, commodity exporters are likely to experience sluggish growth in the next three years if the current downward trend in commodity prices continues.

**We expect domestic demand to continue driving growth in most countries in the medium term.** Its contribution to growth in 2016 and 2017 is estimated at 62% to 64%, expanding to 67% in 2018. This will compensate for lower trade receipts, as the commodity price fall continues. Investment is the second most important driver of growth, playing an increasingly important role with contributions of about 31 to 37% of growth in 2016 and 2017; it is projected to reach 50% in 2018.

**On the other hand, the contribution of net-exports to growth is negative and remains low in the medium term.** Oil-dependent ADF countries would see their recovery coming from a significant increase in private consumption as the external sector's contribution to growth remains negative until 2017 due largely to falling commodity prices. In the run up to 2018, the main drivers of growth in these economies remain strong private and government consumption as well as recovery in gross domestic investment. Economies in transition among ADF countries would also bear the brunt of falling prices, but the effect is limited. Growth mainly would be fuelled by increase in private consumption and gross fixed investment. The adverse terms of trade limit the expansion of government consumption during 2016-2018.

### 3 Macroeconomic Stability

#### Highlights

- *Macroeconomic stability will remain firm in the medium term as inflation is projected to level off. However, there are exchange rate-related inflationary pressures in some countries in the wake of falling commodity prices.*
- *The twin deficits (fiscal and external balances) will continue to widen in the medium term as exports fall, and import bills and public expenditure rise. We estimate that some USD 40 billion will be needed annually to maintain the twin deficits at their 2014 levels.*

#### 3.1 Inflation and Exchange Rate Dynamics:

***Inflation rates in ADF countries are expected to come down in 2016 and 2017 as commodity prices stabilize. They fell steadily from 10.1% in 2010 to about 8.2% in 2015.***

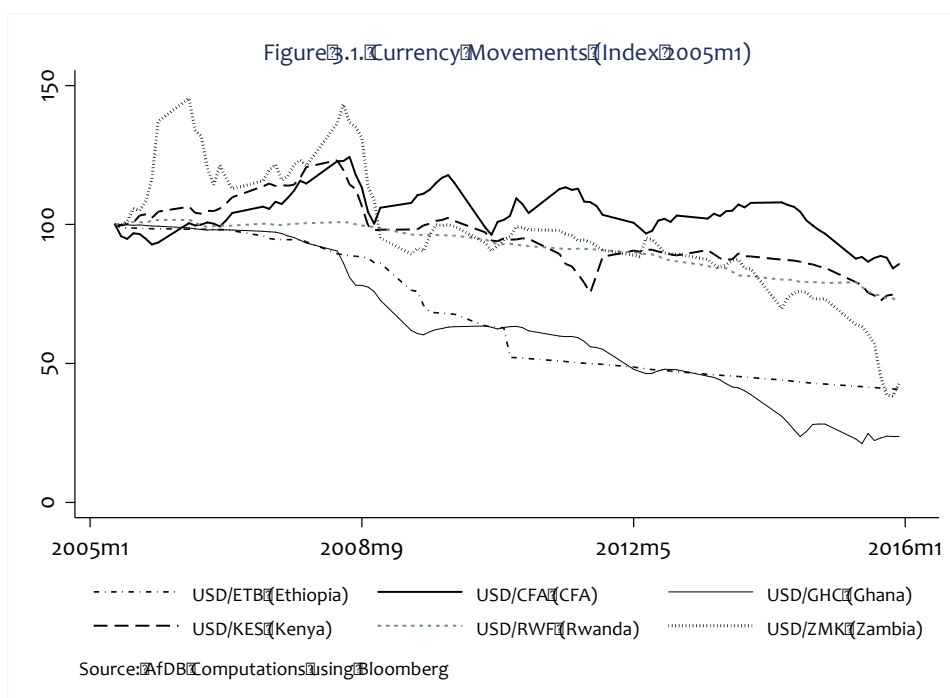
**The exchange rates of most ADF countries have come under immense pressure in the past year mainly owing to a strengthening US dollar and falling commodity prices.** Unfavourable terms of trade in net commodity exporting countries helped weaken external account positions, with second round effects on currencies. The Zambian Kwacha, for instance, lost more than a third of its value in 2015 alone. Overall, about 12 currencies depreciated by more than 20% in 2015, including the Ghanaian Cedi, the Zambian Kwacha, the Ethiopian Birr, the Mozambican Metical, and the Tanzanian Shilling.

Figure 3.1 indicates that exchange rate movements across ADF countries have varied in recent years, even though depreciation of currencies is the general trend. For example, Ghana's Cedi and the Zambian Kwacha sharply depreciated between 2014 and 2015 compared to the Ethiopian Birr or the Rwandan Franc.

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the Economist Intelligence Unit (EIU) forecast for comparison and to provide the outlook for 2018. Our forecasts are very similar to those of the EIU.

**Figure 3.1: Currency Movements in ADF countries (index 2005m1)**



### 3.2 Fiscal and Current Account Balance

**The combination of reduced oil revenues in oil-exporting countries, high public expenditures and over-optimistic revenue projections, widened the twin deficits (current account and fiscal deficits) during 2014-2015.** The total deficit (current account plus fiscal deficits) for ADF-eligible countries increased from 6% in 2014 to 9.8% of GDP in 2015, and is expected to remain at the same level in 2016 and 2017. In 2015, total deficits were slightly wider in ADF-eligible oil exporters than transition economies. The average total deficit in 2016 and 2017 is expected to remain under 10% for both groups. The deficits in Ebola-affected Guinea and Liberia are estimated to remain at much larger levels - above 30% of GDP in 2016 and 2017. By comparison, the average total deficit for ADB-eligible countries is significantly lower and is expected to remain at less than 2% in 2016 and 2017.

We estimate that the large twin deficits experienced by ADF countries since 2015 will require additional resources of USD 40 billion every year to maintain the macroeconomic balances attained in 2014. This implies strong measures of fiscal consolidation, exchange rate adjustments, and non-inflationary and non-contractionary financing solutions.

**Widening deficits may likely increase debt accumulation as governments look for ways to bridge expenditure gaps.** And if the deficits breach the set thresholds, some governments will find it more difficult to secure development financing from traditional multilateral lenders, potentially compelling them to look for non-concessional sources.



**Table 3.1 Evolution of twin deficits and inflation in ADF-Eligible countries**

		2012	2013	2014	2015(e)	2016(p)	2017(p)
<b>Current Account Balance (%GDP)</b>	ADF Eligible	-3.0	-2.9	-4.5	-6.4	-6.1	-6.3
	ADF Oil	-9.1	-10.7	-9.9	-8.8	-9.3	-10.8
	ADF Oil (w/t Nigeria)	-9.6	-11.0	-9.9	-8.6	-8.8	-10.0
	ADF Transition	-9.2	-9.1	-8.4	-7.3	-8.0	-9.4
	ADB Eligible	0.0	0.0	0.9	2.0	1.8	1.9
<b>Fiscal Balance (%GDP)</b>	ADF Eligible	-2.2	-1.7	-1.5	-3.4	-3.4	-3.1
	ADF Oil	-0.9	-1.7	-1.8	-2.1	-2.2	-2.5
	ADF Oil (w/t Nigeria)	-0.9	-1.7	-1.8	-2.0	-2.1	-2.3
	ADF Transition	-1.9	-2.3	-2.2	-2.5	-2.5	-2.8
	ADB Eligible	-0.4	-0.7	-0.8	0.3	0.3	0.1
<b>Inflation (%)</b>	ADF Eligible	12.5	8.8	8.4	8.2	7.6	7.4
	ADF Oil	5.1	1.5	1.8	3.5	2.8	3.3
	ADF Transition	5.9	5.8	4.4	5.3	4.7	3.9
	ADB Eligible	6.3	5.1	5.7	6.6	6.3	7.0

Source: AfDB. Projections as of February 2016

## 4 Development Finance in ADF-Eligible Countries

### Highlights

- Domestic resource mobilization to finance development has shown improvements in most ADF countries with rising domestic savings and taxes revenues. Significant improvements in remittances, FDI and intra-African financial flows helped spur investment and domestic consumption.
- However, most ADF countries fall short of the domestic savings rates required to generate GDP growth rates of 5% or above.

### 4.1 Domestic Resource Capacity

**Although domestic resource mobilization capacity is generally weak in most ADF-eligible countries and much lower than Africa's average, it has also been improving in recent years.** Without considerable effort the outlook for the medium term still reflects that the level of savings, taxes and other resources mobilized by central governments will remain far short of what is needed to underpin a rapid and sustained growth. We briefly examine tax revenues and savings in the next two sub-sections.

#### 4.1.1 Tax Revenue

**Although there has been some improvements in recent years, most ADF countries have low tax revenue to GDP ratios.** The ratio of tax revenue to GDP in ADF countries rose from 9.7% during 2000-2004 to 12% for 2010-2014. This is less than the Ratio for Africa as a whole, which improved from 17.2% to 19.4%. But it is higher than the average level for East Asia (10.8% during 2010-2014) and closing in on the Latin American average of 14.4%.

**There are several explanations for the improvements in tax mobilization in ADF countries.** Growing shares of manufacturing and services in GDP are important components, since these sectors are typically easier to tax than traditional agriculture. The contribution of the modern sector (manufacturing and services) to exports has gradually expanded. For example, the share of manufactured exports in merchandise exports grew to 20% in 2010-2014 from 16% in 1990-1994 for

ADF-eligible countries as a whole. But the picture has been varied, as Table 4.1 shows: ten countries increasing their share since 2000-2004, and seven countries decreasing. In Mali, an increase to 24% in the share of manufactured exports in merchandise exports resulted in tax revenue rising to 15% of GDP. In Togo, an increase to 67% in the manufacturing share brought tax revenue to 16% of GDP – approaching Senegal's 19%, which reflects its consistently high share of manufactured exports

**The African Development Bank Group has been at the forefront of supporting ADF countries to improve their public financial management.** For instance, the Bank provided support to reform the Revenue Authority of Togo, simplifying tax procedures and introducing innovative fiscal instruments to facilitate tax payments. Following the reforms, cash revenues increased by 23% to reach USD \$721 million after the authority's first year of operation.

**Table 4.1 Trends in manufacturing exports (% merchandise exports)**

ADF-only Country	1995-1999	2000-2004	2005-2009	2010-2014
Benin	4.3	7.3	14.1	11.0
Burkina Faso	14.1	17.1	8.8	9.6
Burundi	0.3	1.9	18.1	12.9
Central African Republic	44.8	48.7	21.8	5.7
Comoros	33.4	3.0	13.4	
Ethiopia	8.2	11.4	8.7	8.8
Gambia, The	19.6	2.4	2.3	6.4
Guinea	20.4	26.7	11.6	
Guinea-Bissau	0.2	1.8	0.1	
Madagascar	27.9	44.4	56.8	41.8
Malawi	8.7	11.5	10.5	9.0
<i>Mali</i>	<i>2.6</i>	<i>10.4</i>	<i>12.4</i>	<i>23.6</i>
Mauritania	0.3	0.0	0.0	0.0
Mozambique	12.5	6.7	6.1	12.2
Niger	1.8	8.9	11.1	7.2
Rwanda	3.9	4.0	4.5	10.2
<i>Senegal</i>	<i>50.5</i>	<i>34.3</i>	<i>41.3</i>	<i>40.1</i>
Tanzania	15.5	16.6	23.1	25.2
<i>Togo</i>	<i>8.0</i>	<i>47.3</i>	<i>56.0</i>	<i>66.8</i>
<i>Uganda</i>	<i>5.0</i>	<i>5.5</i>	<i>22.1</i>	<i>28.6</i>
Zimbabwe	30.7	28.3	38.1	23.1

*Note: Manufacturing export includes chemicals, basic manufactures, machinery, transport and equipment and excludes nonferrous metals.*

*Source: World Bank Development Indicators (2015)*

**Progress made in tax policy and administration not only led to increasing tax revenue but also diversified tax revenue sources.** This is explored in Annex Table A2. Overall, ADF-eligible countries have diversified tax revenue across *direct, indirect, trade, and resource taxes*. The contribution of direct taxes increased from an average of 3.6% of GDP in 1996-2004 to 4.2% in 2005-2013; indirect taxes from 3.7% of GDP to 4.5%; while the relative importance of trade taxes fell with shares remaining steady at 3.7% of GDP.

**Despite this fall in relative importance, taxes on international trade still accounted for the largest share of tax revenue, with at least 15 ADF-eligible countries having higher shares of international taxes than direct or indirect taxes.** This form of tax typically involved levying relatively high levels of import tariffs. Such customs structures tend to protect industries and often lead to lower incentives to produce efficiently. Import tariff rates applied by ADF countries averaged 9.6% since 2005, higher than the African average of 7.4% and substantially higher than the East Asian and Latin American rates of 4.3% and 4.9%.

#### **4.1.2 Domestic Savings**

**The ratio of savings to GDP is low in ADF countries - averaging 12.7% since 2009.** This is much lower than the average savings/GDP rates for Africa as a whole (18.4%), or for Latin America and the Caribbean (19.3%) and especially East Asia (45.6%). So neither ADF-eligible countries nor Africa meet the minimum threshold of 25% commonly considered necessary for sustaining GDP growth rates of 5% or higher. Variation across ADF-eligible countries is wide and persistent. For example, Mali, Senegal, Tanzania and Uganda have substantially increased savings-to-GDP ratios over the past three decades. The ratios in the four countries converged to the African level during 2011-2014. In contrast, average savings-to-GDP ratios during 2010-2014 in Togo, Liberia and Guinea were -3.9%, -7%, and -13% of GDP<sup>2</sup>.

**Low private savings rates in some ADF countries are largely explained by one or a combination of the following: inadequate access to banking and financial services, prohibitive documentation requirements, minimum balance stipulations, and physical distance from financial institutions.** For example:

- Uganda and Tanzania each have less than one bank branch per 100,000 people. The ratio is somewhat better in some ADF eligible countries –notably, Zimbabwe has more than three bank branches for the same population size.
- Banks in Sierra Leone and Uganda require at least four documents to open an account, including an identity card or passport, recommendation letter, wage slips and proof of address. This is onerous for the majority of the population that function in the largely undocumented informal economy.

Although mobile banking is slowly breaking bureaucratic walls that have historically limited access to financial services in general and savings in particular, more support and investment are still needed for innovations to improve access to financial services.

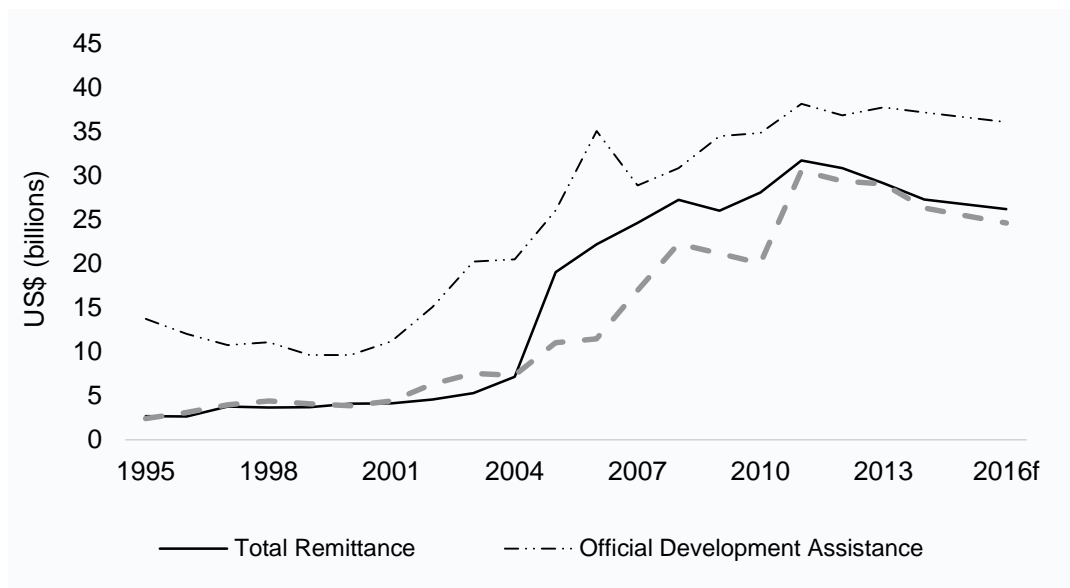
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<sup>2</sup> Gross savings are calculated as gross national income less total consumption, plus net transfers. Negative gross savings, therefore, indicate net borrowing by countries.

## 4.2 External Capital Flows

Figure 4.1 shows the trends in the three main components of external capital flows.

**Figure 4.1. External Flows to ADF eligible countries**



Source: *African Economic Outlook (2016)*

### 4.2.1 Official Development Assistance

**In part because private flows are unpredictable and domestic resources are not rising fast enough to support public spending in key sectors, Official Development Assistance (ODA) is still very important for most ADF countries.** During 2011-2014, average ODA was larger than FDI in a majority of ADF countries – with the exception of Madagascar, Mozambique, Niger and Sudan. Countries such as Liberia, South Sudan, Mauritania and Rwanda are more dependent on development assistance: in Liberia, ODA per-capita averaged around USD 160 in 2010-2014; in Mauritania USD 104; and in Rwanda USD 100.

**There is, however, a general declining trend of ODA and other types of external capital flows to ADF-eligible countries.** These trends are projected to continue over the medium term, as shown in Figure 4.1.

### 4.2.2 Foreign Direct Investment

**Net Foreign Direct Investment (FDI) flows to ADF eligible countries grew nine-fold from USD 3.1 billion during 1995-1999 to USD 28.8 billion in 2010-2014.** Four of the top-ten net FDI recipients in Africa during the recent period (2010-2014) were ADF countries: Nigeria, Mozambique, Sudan, and Tanzania (see Table 4.2).

**The rise in FDI in several countries is primarily linked to the mining sector.** For example, FDI as a share of GDP in the most recent five-year period averaged 31% and 36% in Mozambique and Liberia, albeit with considerable variation over time, and reflecting coal and gas in the case of Mozambique and iron ore and rubber in the case of Liberia. Capital investment financed by FDI in Mozambique totalled over USD 31 billion creating over 34,000 jobs over the past five years. Similarly, high shares of FDI to GDP in Mauritania (11.5%) and Sierra Leone (14.3%) are also attributed to investment in the mining sector.

**Current trends in commodity prices, however, pose risks to expansion of FDI in these countries.** Global metal and oil prices are expected to remain near current levels in the medium term. There has already been a 10% decline in net FDI flows to West Africa in 2014 - especially in Nigeria, Mauritania and Liberia.

**Table 4.2 Top-ten destinations by net FDI flows in Africa (2010-2014)**

	USD, Millions
1 Nigeria	6,026.2
2 Mozambique	4,998.8
3 South Africa	4,626.0
4 Egypt	4,192.2
5 Ghana	3,247.6
6 Morocco	2,842.0
7 Congo, Rep.	2,179.9
8 Sudan	2,063.7
9 Equatorial Guinea	1,975.0
10 Tanzania	1,813.2

Sources: AfDB Statistics, World Bank

#### 4.2.3 Remittances

**Remittance flows to ADF-eligible countries grew tenfold to USD 27.3 billion in 2014 from USD 2.6 billion in 1996.** That represents a rise as a share of GDP - from 1.7% to 4.7% - and per capita - from USD 5.9 to USD 28.7. Nigeria, Ghana, Senegal, Uganda and Mali are among the top ten destinations for remittance inflows in Africa (see table 4.3).

**Remittance flows are expected to pick up in 2016 and 2017 if economic conditions stabilize in OECD economies.**

**Evidence suggests that remittances remained a lifeline for the poor in smoothing consumption at a time of adverse shocks, and also a source of finance to invest in small businesses, education of children and building assets.** A study by the Bank also indicates its strong and positive role in reducing wealth disparities in recipient countries in Africa.

**Table 4.3 Top-ten destinations of remittance inflows in Africa (Average 2010-2014)**

Country	US\$, Millions	Per-capita/year (USD)
1 Nigeria	20,616.9	121.9
2 Egypt	17,833.1	193.9
3 Morocco	6,694.8	206.5
4 Tunisia	2,265.7	203.5
5 Ghana	2,007.8	73.2
6 Senegal	1,545.8	95.6
7 Kenya	1,211.0	15.7
8 South Africa	1,069.6	19.9
9 Uganda	887.4	17.7
10 Mali	805.8	23.2

Source: World Bank Statistics

#### 4.2.4 Intra-African Financial Flows

**Intra-African investment has been on the rise over the past 15 years.** Cross-border FDI flows within Africa increased from roughly USD10 billion in 2000 to around USD55 billion in 2015, accounting for about 19% of total investment flows in Africa in 2015.<sup>3</sup>

**A major benefit of such cross-border regional financial flows is that, relative to FDI from outside Africa, they are less skewed towards the extractive sectors.** They are mainly concentrated in telecommunication, banking and insurance, thereby aiding recipient countries in economic diversification away from volatile extractive sectors.

**Yet intra-African financial flows remain low relative to other regions.** For example, regional financial flows account for 33% of total FDI in Asia. This shortfall in Africa is partly explained by two reasons. First, Africa is still characterized by the presence of high tariff and non-tariffs barriers that hinder trade, and so foreign investment, given its linkage to trade. Although rising, intra-African trade is only 15% of total African trade - low compared to intra-regional trade in Asia (51%) and Europe (68%). Second, some countries wary of capital flight, have enacted stringent regulatory measures that make it difficult for investors, including those from Africa, to move financial assets at will. The result is that intra-Africa investments have grown slower than other regions. Intra-Africa financial integration will therefore benefit from cross-border co-operation among financial regulators to harmonize financial regulatory rules across the region.

**At the same time, the small size of intra-African trade is partly the result of limited access to trade finance.** Banks operating in Africa finance about one-third of the value of Africa's total trade, yet only 19% of bank intermediated trade finance is devoted to intra African trade. Eastern and Southern Africa have the highest proportion of intra-regional trade, thanks to the Kenya and South Africa hubs, and so also the highest proportion of bank intermediated trade finance devoted to intra-regional trade, around 27%. Targeted financing for regional trade can promote intra-African trade.

## 5 Evolution and Sustainability of Debt in ADF-Eligible Countries

### Highlights

- Domestic and external debt continues to play an important role in closing financing gaps. Significant variations between countries and over time for individual countries make debt patterns unpredictable and heightens the risk of debt distress.
- Although a significant portion of debt is incurred partly to fund major investment programs, about 40% of the variation in external debt is for financing the twin deficits, pointing to ADF countries' weak buffers against shocks.
- Whereas several ADF countries have accessed non-concessional debt in recent years from the international markets, this is unlikely to continue as such as global economic conditions have continue to change.

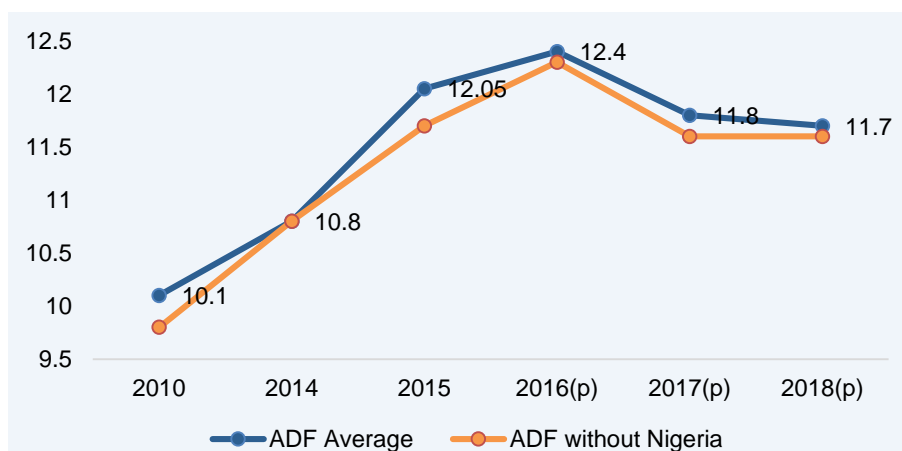
### 5.1 Domestic Public Debt

**The ratio of domestic debt to GDP of ADF-eligible countries has been rising since 2010, as countries have turned to domestic markets to finance public expenditure.** There are various reasons for this. Firstly, in some cases, such as Tanzania, the increase in domestic borrowing has to a large extent been driven by declining ODA. Secondly, countries with large recurrent deficits find it easier to finance the deficits using domestic debt rather than foreign debt - particularly when ODA budget support is limited. Thirdly, a few countries increase domestic debt to absorb excess liquidity in cases of rapid inflows of foreign exchange which could undermine macroeconomic stability. Appendix Table 4 shows the details.

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<sup>3</sup> According to Ernst and Young

**Figure 5.1: Evolution of Domestic Debt to GDP in ADF Countries**



Source: IMF Article IV (various issues)

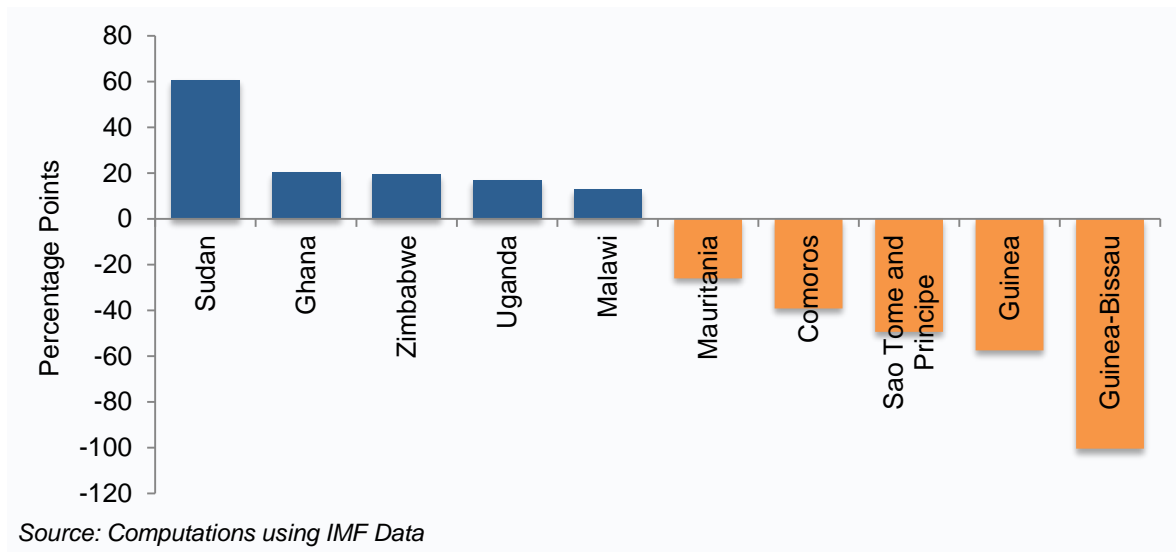
**A rapid rise in domestic debt may pose significant risks especially in countries where the domestic financial markets are underdeveloped.** Domestic debt can be costly given that domestic interest rates are higher than foreign ones. Furthermore, the interest cost of domestic borrowing may rise rapidly in countries where the domestic financial market is underdeveloped, with consequent implications on government's debt repayment obligations.

Localized domestic debt build-ups are already emerging in the ADF group with prominent cases in the **Gambia** and **Togo** where there are slippages in fiscal management, and domestic arrears are accumulating. In the case of Gambia, short-term treasury bills accounted for nearly two-thirds of the domestic debt and pose a heightened risk of debt that may require costly fiscal adjustments. Interest payment on domestic debt consumes nearly 15% of government revenue. Similarly, growing exposure to short-maturity treasury bills in Togo has led public domestic debt to grow to nearly 35% of GDP. In 2015, interest payments on domestic debt are over four times larger than those for external debt (CFA 27 billion compared to only CFA 8 billion). The stock of government securities on the regional market has increased from 9.2% of GDP in 2010 to 18.4% in 2014, primarily through the use of Treasury bills.

## 5.2 External Public Debt

**The external debt of ADF countries has remained relatively unchanged over the last five years (2010-2015), averaging 17.4% of GDP. The average, however, hides the variation between individual countries and over time.** Figure 5.2 below shows that some countries recorded a rapid change in their debt to GDP ratio between 2010 and 2015 while others recorded significant reduction. Large enough shocks could easily push some countries into debt trap or debt distress as witnessed by high instability in the pattern of debt accumulation by individual countries in a short period.

**Figure 5.2: Change in External Debt to GDP ratio in selected ADF countries (2010-2015)**



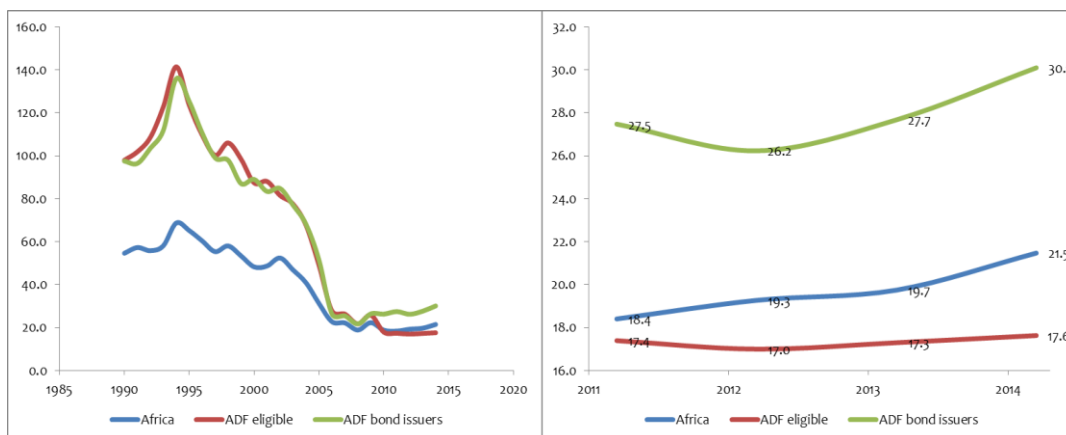
Source: Computations using IMF Data

Source: Authors' calculations from IMF Article IV (several issues)

**Spurred by low global interest rates African governments have been able to access global commercial debt markets in recent years with the intention of financing gaps for a number of infrastructure and other capital investment projects, as well as to stem fiscal deficits.** During 2013-2015, USD 20.9 billion worth of sovereign bonds were issued by African countries, compared to only USD 5.9 billion in 2009 -2012. Today, many ADF countries have direct access to financial markets compared to the past, when they were confined to borrowing from bilateral and multilateral public lenders. ADF countries accounted for 63% of the sovereign issues between 2013 and 2015 (USD 13.25 billion). What is striking is also the sudden increase within a period of one year from USD 1.7 billion in 2013 to USD 6.5 billion in 2014. In 2015 ADF countries picked up 65% of the total loans African countries borrowed from capital markets at commercial rates (Table A8).

The trend to watch is the debt profile of ADF countries that recently accessed non-concessional loans from the international capital markets. The debt to GDP ratio of ADF-eligible countries has increased steadily from 21.7% in 2008 to 30.1% in 2015 (Figure 5.3 below), reflecting not just low global interest rates, but also an increase in the number of ADF countries with credit ratings, from 3 in 2003 to 17 in 2014.

**Figure 5.3: Evolution of external debt in ADF Countries (percentage points)**



Source: International Debt Statistics 2016



**In the medium term, rising global interest rates and weakening of the macroeconomic position of most ADF countries will most likely increase the cost of borrowing for the countries that go to the capital markets.** Already, several ADF countries have found their most recent issues carrying a higher coupon (see Table A8). The sovereign bonds issued by ADF eligible countries are rated below investment grade (below BBB-) and often characterized as having “large uncertainties or major exposures to adverse conditions”. Ratings at issue range from BB- (Nigeria); B+ (Cote d’Ivoire, Kenya, Ethiopia, Mozambique, Senegal, and Zambia); B (Burkina Faso, Cameroon, Ghana and Rwanda) and B- (Democratic Republic of Congo).

### 5.3 Debt Sustainability

**Public debt in ADF-eligible countries remains generally low and stayed constant over the last five years despite the rising domestic public debt.** However the average hides significant variations across countries and the evolution of debt has not been similar across countries. But as growth rates begin to taper off in emerging market economies and trade revenue declines, there are concerns over the medium to long term sustainability of this recent borrowing activity.

**The strength of the link between deficits in current account, fiscal balance and debt is an important indicator to gauge the risk of debt distress.** Our estimates indicate that for recent periods, close to 40% of debt incurred during the recent past was mainly driven by the need to finance deficits. But other causes such as investment in public projects seem to be important as well.

#### 5.3.1 Country Assessments

In this section, we present an indicative assessment of debt risk by categorizing African countries into *strong, moderate and transitional policy environments* based on average CPIA scores over the past three years (2012-2014). This is shown in Annex Table A. Two types of debt burden indicators are identified: size of debt and debt servicing. Under each broad indicator a pair of sub-indicators is used – the share of exports and the share of Gross National Income (GNI). A set of complementary indicators is appended to each broad indicator to support the analysis.

The figures provided in Annex Table A should be seen as providing an indication of current risks of debt distress and are not meant to substitute formal country level Debt Sustainability Analyses that provide trajectories of debt indicators. Nevertheless, the Table shows that some countries are already substantially above the indicative thresholds. Overall, the number of countries with moderate (yellow) and high (red) risk of distress is far higher than those with low risk of debt distress. Even where the risk is moderate, there are differences in performance between countries. Continued terms of trade shocks could set off a slide to debt distress.

The next two sections of the paper focus on only two of the three country groups, namely *transitional policy environment and moderate policy environment*, because those are the ones whose policy environments make them prone to debt distress.

#### 5.3.2 Transitional (Fragile) Policy Environment countries

Two countries in this category are at severe risk as indicated in Annex Table A Debt indicators in **Sudan** and **Zimbabwe** are substantially above the indicative thresholds and represent countries in debt distress. Debt-service in Sudan is abnormally small given its large short-term debt financing needs – indicating a large build up in arrears. A substantial proportion of the debt is already in the form of accumulated arrears that continue to hinder possibilities of debt-rollover. Access to new debt is limited due to Sudan’s inability to service its debt. In Zimbabwe, the external debt stock and debt servicing are currently above their thresholds, and short-term debt financing needs are large relative to current external reserves. Opportunities for rolling-over some of the debt may be particular problematic in Zimbabwe since three-quarters of the external debt burden is non-concessional. Zimbabwe’s debt situation remains a serious constraint to economic development and addressing it will require engaging policymakers on the needs for comprehensive arrears clearance and tightening macroeconomic levers, and engaging development partners on the needs for debt relief.

### 5.3.3 Moderate Policy Environment

The present level of debt in **Mauritania** and **Sao Tome & Principe** currently stands above the indicative thresholds placing them at high risk of debt distress. Mauritania's debt-to-GNI ratio is above 40% while its debt ratio relative to export earnings is approaching the indicative ratio. These levels may rise since export earnings are expected to fall further in the medium term due to a negative outlook for commodity prices. Mauritania predominantly exports iron ore, copper ore, gold and crude petroleum – commodities that have suffered the largest decline in prices since 2013. Continued risk of terms of trade deterioration is, therefore, likely to keep debt levels high. Sao Tome and Principe has a debt-to-GNI ratio of 40%. A higher proportion of its debt is, however, of long-term maturity. Presently, short-term debt constitutes only 22% of external reserves, while debt servicing costs are modest.

**Zambia, the Gambia, Malawi and Mozambique** are at moderate risk of debt distress. All four countries, however, have high proportions of concessional debt, reducing the burden of debt servicing. Zambia's circumstances have, however, turned for the worse. Growth in Zambia, which relies on copper exports for nearly 70% of its foreign exchange earnings, is likely to contract to 4.7% in 2015 from an average of 6% over the past five years. A combination of global economic forces and domestic mining sector policy uncertainty is expected to lead to a decline in investment, placing Zambia at high risk of debt distress.

## 6 The Big Picture: The Road to Sustainable Development Goals

### Highlights

- The future of ADF countries is full of opportunities given their immense potential in human as well as natural wealth. The path to achieving targets set in the SDGs however will remain patchy and rough if current trends in mobilizing domestic and external resources continue.
- ADF countries will need at least an additional USD 130 billion annually to achieve and sustain a growth rate above 7% for the next 15 years.

**While ADF-eligible countries have made significant progress in reducing poverty and improving human development, ending extreme poverty as indicated in the SDGs will require more effort and resources.** The past decade and a half has witnessed rapid growth in ADF countries, leading to 63% growth in per capita incomes, and improvements in other dimensions of living standards, including health and education. The Bank estimates that the proportion of the population with less than 1.25 dollars a day (the measure of extreme poverty) in ADF countries declined from around 63% in 2000 to 42% in 2015. But despite this 20 percentage point reduction in the proportion of people who are poor, the increase in population meant that 40 million were added to the ranks of poor people. This suggests that current growth trends are inadequate to end poverty. More needs to be done.

**We estimate that the financing gap of ADF countries is likely to be around USD 130 billion annually despite the steady progress towards improving their domestic resource base to finance development in recent years.** We estimate that given their current level of GDP, the ADF countries, need to double their GDP in 10 years to achieve SDGs, which requires that each of them grow by 7% every year. Annex Table A5 makes a first estimation of the financing gap required to achieve a 7% growth rate in each ADF country, and double the GDP in ten years. The results show that the gap is sizeable: the median financing gap required is around 11.3% of GDP, equivalent to about USD 130 billion USD annually. Our estimates indicate substantial differences in financing gap between countries, given variations in investment and savings rates and the average growth performance over the past decade. For countries that already had average growth of 7% or more in the past ten years such as Zambia and Mozambique, the resource gap is minimal (in some cases negative) implying that they can achieve the 7% growth annually and therefore double their GDP in 10 years by maintaining the average investment to GDP ratio of 31% and 30.2% respectively and without the need of additional resources.

**The most important challenge ADF countries face is in their ability to use investment efficiently for spurring growth.** We estimate that the average efficiency of investment for an ADF country currently stands at around three (3). Put differently, this means that to attain 5% growth in GDP, a country needs to invest 15% of GDP. For resource-rich countries, the efficiency of investment is much lower, because of the capital-intensive nature of investment and its concentration in a narrow sector with few backward and forward linkages. Studies have shown that the efficiency of investment depends mainly on the resilience of institutions. Good economic and political governance is needed, to reduce political capture, and to root out rent-seeking behavior and other impediments to investment. This requires determined reform by leaders and policy makers. In the last decade there has been commendable progress in this area, but much more is needed if investment is to be transformative. This strengthens the case for maximizing access to sources of capital that prioritize high-quality investments, such as the ADF.

**In the medium to long-term, ADF countries will continue to deal with major structural challenges.** Some ADF countries remain fragile and vulnerable to domestic and external shocks; in such circumstances, investment remains subdued, limiting efforts to diversify economic structures and boost growth. Some countries such as the C.A.R. and South Sudan have only recently emerged from civil wars that have undermined their development efforts.

**The diversity in the needs and challenges faced by ADF countries imply country- and region-specific strategies** where the Bank's rich experience in working with these countries becomes a vital asset in catalysing development assistance. In general, all ADF countries still need bold reforms in a wide range of areas before they can realize their vast potential from in both human and other resources.

**The endorsement of the SDGs by heads of states in September 2015 in New York provides the rallying ground for genuine action to end poverty and eradicate hunger from the planet.** The twin objectives of the Bank Group's <sup>4</sup> Ten-Year Strategy - inclusive growth and green growth - are well aligned with the 17 goals enshrined in the SDGs. These goals embody the aspirations of the African people, its leaders and development partners. Their achievement clearly hinges on a development model that fits the circumstances of each country and provides room for coordination, scale economies and measurable targets.

## 7 Conclusion

**Most ADF countries currently have some of the necessary conditions for economic take off despite pockets of macroeconomic risks in the medium-term coupled with more long-term structural vulnerabilities.** This is because over the past two decades, many of these countries made significant strides in implementing market-friendly reforms and managing key macroeconomic indicators to reduce uncertainty and instability, all of which resulted in growth that surpassed historical trends.

**We estimate that the average economic growth in ADF countries for 2016-2018 will stand at above 5% despite global and regional shocks, including falling commodity prices and weakening international trade.** Growth resilience is anchored by better macroeconomic management, as well as the momentum created by the recent growth that was largely financed by investment from diversity of sources, including ODA which though declining, remains the largest source of capital flows. Remittances, FDI, private portfolio flows as well as non-concessional finance have also taken increased prominence in many countries, but could slow down in the medium-term due to various global economic headwinds. Meanwhile, domestic resource mobilization capacity, though weak and below the African average, is expected to keep improving over the next decade.

**Although the current level of external debt to GDP of ADF countries is still low and manageable, it varies significantly across countries and over time and the potential for debt distress still**

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<sup>4</sup> The Bank Group is comprised of the African Development Bank, the African Development Fund and the Nigeria Trust Fund. The Ten Year Strategy covers the operations of the African Development Bank and the African Development Fund.

**exists in some countries.** With the recent accumulation of non-concessional loans, concern is rising whether eventually the situation could precipitate a debt crisis. It is noteworthy that the declared intention of most of the countries that secured commercial debt was to finance infrastructure, which would give the countries a strong future domestic resource capacity base. But some of the countries also took on debt because of lack of a robust domestic source of finance to buffer against shocks. Given that both the fiscal and current account deficits are expected to widen in the medium term, debt remains the one of the main options of finance to maintain both macroeconomic balance and growth momentum. Without countercyclical funding, a macroeconomic crisis could develop into a growth crisis. In turn, this situation requires both sound debt management in these countries and vigilant monitoring by development partners.

**ADF countries' achievement of the SDGs will depend on adoption of innovative mechanisms aimed at leveraging existing and additional financial resources to ensure predictability, efficiency and diversity.** Most ADF countries are still grappling with challenges including massive youth unemployment, persistent poverty and inequality, pockets of conflict and fragility, huge infrastructure gaps, fragmented regional markets and a poor state of industrial development. Addressing these challenges will require the support of the African Development Fund. The African Development Bank Group stands at a vantage point as a partner of choice in the development process. Fortunately, the future is bright in most ADF countries and opportunities exist that if fully harnessed, will catapult growth. These opportunities include increasingly smart government policy choices, favorable investor perceptions and a vibrant private sector, supported by an improving investment climate and a growing middle class.

## Annex Tables

Table A. Debt risk in ADF countries in 2015

Transitional Policy Environment								Risk of Debt Distress
CPIA < 3	Size of Debt			Debt Servicing				
Country	External debt stocks (% of exports) [2015]	External debt stocks (% GNI) [2015]	Concessional debt (% of total external debt), [2014]	Total debt service (% of exports) [2014]	Total debt service (% of GNI), [2014]	Currency composition of debt, USD (%) [2014]	Current, Short-term debt (% of total reserves), [2014]	
<b>Thresholds</b>	<b>100</b>	<b>30</b>	<b>.</b>	<b>15</b>	<b>18</b>			
Chad	41.2	13.4	87.5	9.4	0.83	56.6	0.9	
Comoros	94.4	13.6	76.4	0.7	0.08	35.5		
Cote d'Ivoire	47.2	23.8	19.6	7.5	4.2	40.6		
Eritrea	.	28.2	90.6	.	2.57	66	.	
Guinea-Bissau	8	23.8	70.3	0.3	0.16	49.4	17.8	
South Sudan	18.5	9.6	.	3.8	1.2	.	.	
Sudan	920.1	116.7	39.2	3.5	0.5	54.1	2789.2	
Togo	45.2	18.6	52	2.2	1.5	34.7	17.1	
Zimbabwe	152.2	48.4	25	2.3	21.2	30.1	573	
Moderate Policy Environment								Risk of Debt Distress
3<=CPIA<=5	Size of Debt			Debt Servicing				
Country	External debt stocks (% of exports) [2015]	External debt stocks (% GNI) [2015]	Concessional debt (% of total external debt), [2014]	Total debt service (% of exports) [2014]	Total debt service (% of GNI), [2014]	Currency composition of debt, USD (%) [2014]	Current, Short-term debt (% of total reserves), [2014]	
<b>Thresholds</b>	<b>150</b>	<b>40</b>	<b>.</b>	<b>20</b>	<b>20</b>	<b>.</b>		
Benin	86.0	15	64.1	5.1	1.4	13.6	78.9	
Burkina Faso	71.6	15.8	87.3	2.8	0.6	30.5	0	
Burundi	134.5	11.2	57.5	14.1	1.2	48.4	9.5	
Cameroon	69.5	16	71.6	2.6	0.7	29.1	.	
CAR	295.5	37.3	70.0	0.4	44.6	45.0	.	
Djibouti	211.0	74.4	77.8	8.2		30.2	24.1	
Ethiopia	212.3	21.7	69.1	10.5	1.4	69.9	.	
Gambia, The	119.2	36	77.3	8.9	3.1	42.9	.	
Ghana	120.6	50.6	42.5	5.6	2.0	61.6	63.9	
Guinea	94.1	21.1	60.4	3.0	1.0	60.1	59.4	
Lesotho	62.4	24.9	75.1	2.8	1.4	41.0	0	
Liberia	58.8	17.9	40.8	0.7	0.3	89.7	2.3	

Madagascar	50.1	18.7	71.0	2.9	0.7	52.3	44.5	
Malawi		32.9	77.0	8.8	0.7	.	0.1	
Mali	61.8	15.3	86.8	4.3	0.9	32.3	5.2	
Mauritania	93.2	39.8	69.2	5.6	4.2	48.6	.	
Mozambique	128.9	38.4	70.8	2.6	0.9	63.0	.	
Niger	123.1	23	87.1	5.3	0.6	56.7	14.1	
Rwanda	130.6	19.3	68.0	3.5	0.6	61.2	0.7	
Sao Tome & P	140.0	39.9	81.0	11.0	1.9	37.4	22	
Sierra Leone	130.5	70.1	50.5	1.2	0.6	61.9	40.1	
Tanzania	105.2	23.3	57.6	1.9	0.4	55.8	35.2	
Zambia	72.6	31.3	43.5	2.8	1.2	62.7	12.4	
Strong Policy Environment								
CPIA > 5	Size of Debt			Debt Servicing				
Country	External debt stocks (% of exports) [2015]	External debt stocks (% GNI) [2015]	Concessional debt (% of total external debt), [2014]	Total debt service (% of exports) [2014]	Total debt service (% of GNI), [2014]	Currency composition of debt, USD (%) [2014]	Current, Short-term debt (% of total reserves), [2014]	Risk of Debt Distress
<b>Thresholds</b>	<b>200</b>	<b>50</b>	.	<b>25</b>	.			
Kenya	174.6	29	62.5	5.7	1.1	45.1	35.7	
Nigeria	19.2	2.3	50.9	0.5	0.1	72.6	.	
<b>Senegal</b>	<b>105.09</b>	28.1	75.9	1.1	2.7	35.6	0	
Uganda	162.9	33.4	91.4	1.6	0.3	47.6	0.8	

Note: **Green** – All measures of debt sustainability are within the indicative thresholds and are likely to stay within those bounds in the medium term (5 years). **Yellow** – All measures of debt sustainability are within the indicative thresholds, but one or more of the indicators is likely to breach the threshold in the medium term. **Red** – At least one measure of debt sustainability has breached the threshold and is likely to remain above those levels, in the medium term while other measures could follow suit.

**Table A1. Macroeconomic Indicators –ADF recipient Countries**

Country	GDP per-capita (constant 2005 USD)						Real GDP per-capita Growth					
	2005	2010	2014	2015	2016	2017	2005	2010	2014	2015	2016	2017
Benin	587	610	671	691	710	732	-0.4	-0.3	2.7	2.9	2.8	3.1
Burkina Faso	407	470	511	521	536	555	5.5	5.3	1.1	2.0	3.0	3.5
Burundi	141	147	153	138	142	145	2.3	2.6	2.3	-9.3	2.7	2.0
Cameroon	915	930	1024	1053	1082	1114	-0.5	0.8	3.1	2.8	2.8	2.9
CAR	333	352	226	234	243	252	0.7	1.1	-0.9	3.5	3.7	3.9
Chad	660	708	766	799	813	855	5.3	10.8	4.3	4.3	1.7	5.2
Comoros	615	589	597	586	581	583	3	-0.9	-1	-1.9	-0.8	0.3
Congo, DR	213	238	284	299	311	322	3	4	6	5.3	4.2	3.7
Côte d'Ivoire	942	947	1080	1139	1195	1250	-0.9	-0.6	5.2	5.5	4.9	4.6
Djibouti	910	1080	1249	1294	1347	1403	0.3	0.7	3.1	3.6	4.1	4.2
Eritrea	262	225	..	215	213	213	-2.5	-1.1	-1.5	-3.0	-1.0	0.1
Ethiopia	162	237	316	338	359	381	9.8	8.8	8.6	7.0	6.4	5.9
Gambia, The	433	463	..	458	470	490	-3.8	3.7	-2.9	1.9	2.7	4.2
Ghana	502	605	764	771	794	848	3.4	5.2	1.4	0.9	3.1	6.7
Guinea	304	297	295	288	295	305	0.9	-0.7	-1.4	-2.4	2.3	3.3
Guinea-Bissau	401	422	420	430	441	453	2	2.1	0.3	2.4	2.5	2.7
Kenya	530	593	659	683	711	741	2.8	6.1	2.6	3.7	4.0	4.3
Lesotho	711	877	988	1012	1039	1083	2.9	6.6	3.2	2.4	2.7	4.3
Liberia	168	197	226	222	229	239	4.3	1.8	-1.9	-1.7	3.1	4.2
Madagascar	276	275	272	273	278	283	1.7	-2.5	0.5	0.6	1.7	1.7
Malawi	216	262	274	277	283	290	1.2	3.9	2.7	1.1	2.1	2.4
Mali	426	461	458	466	474	483	2.9	2.6	3.9	1.7	1.8	1.7
Mauritania	693	779	877	892	927	954	6	2.1	4.4	1.8	3.9	2.9
Mozambique	366	455	536	560	591	622	4.8	4.4	4.7	4.5	5.5	5.3
Niger	253	269	293	297	303	318	3.6	5.1	3.7	1.2	2.3	4.8
Nigeria	804	997	1098	1111	1128	1147	5.8	7	3.5	1.2	1.5	1.7
Rwanda	287	374	446	462	482	505	7.9	3.1	4.1	3.6	4.3	4.8
Sao Tomé and Príncipe	824	978	1071	1097	1127	1162	4.5	1.5	1.9	2.5	2.7	3.1
Senegal	773	799	814	831	855	885	2.8	1.3	1.7	2.1	2.9	3.5
Sierra Leone	321	368	513	385	376	436	0.6	3.3	4.9	-25.0	-2.5	16.2
Somalia	..	..	..	..	..	..	..	..	..	..	..	..
South Sudan	..	..	..	..	..	..	..	..	-1.6	-9.4	-1.3	6.6
Sudan	662	812	973	977	986	1000	-1.9	0.4	0.4	0.4	1.0	1.4
Tanzania	446	513	588	616	647	678	3.5	3.8	4.9	4.8	4.9	4.9
Togo	379	388	430	441	454	467	-1	1.4	2.3	2.7	2.9	2.9
Uganda	321	401	436	445	455	468	6.6	4.2	1.7	2.1	2.4	2.7
Zambia	692	909	1033	1042	1049	1074	4.5	7	2.2	0.9	0.6	2.4
Zimbabwe	443	372	458	460	465	474	-8.4	10.4	2.1	0.3	1.3	1.9
<b>ADF countries*</b>	<b>633</b>	<b>777</b>	<b>873</b>	<b>874</b>	<b>883</b>	<b>901</b>	<b>3.6</b>	<b>5.2</b>	<b>3.4</b>	<b>2.0</b>	<b>3.0</b>	<b>3.5</b>

Source: AfDB based on WEO, October 2015. \* Weighted average

**Table A2. Tax Revenue (as a % of GDP) across ADF-only Countries**

	1996-2004				2005-2013			
	Direct Tax	Indirect Tax	Trade Tax	Resource Tax	Direct Tax	Indirect Tax	Trade Tax	Resource Tax
Benin	3.3	2.9	6.9	0.0	3.3	3.6	8.0	0.0
Burkina Faso	2.9	4.3	3.7	0.2	3.0	6.5	3.2	0.1
Burundi	3.7	7.1	3.3	0.3	3.9	7.3	1.8	0.0
CAR	2.1	4.2	1.8	0.0	1.7	3.8	2.0	0.0
Chad	2.7	1.3	2.4	1.4	2.5	1.3	1.3	13.3
Comoros	1.1	0.0	6.6	1.3	3.4	3.2	4.9	0.0
DRC	1.0	1.0	1.3	1.4	2.5	3.8	2.8	2.3
Ethiopia	3.7	2.2	4.4	0.2	3.5	2.7	4.5	0.0
Gambia	3.3	1.4	5.8	0.0	4.7	5.6	4.1	0.0
Guinea	4.1	4.5	2.1	0.0	6.7	5.9	3.0	0.0
Guinea Bissau	1.0	2.2	2.2	0.0	2.0	2.4	1.7	0.0
Liberia	2.7	2.9	4.5	2.8	7.3	3.7	8.4	0.4
Madagascar	1.7	2.6	5.2	0.2	2.3	2.6	5.1	0.5
Malawi	6.8	6.3	2.3	0.0	8.6	8.7	1.9	0.1
Mali	2.5	2.0	7.2	2.4	4.3	3.0	4.7	2.4
Mauritania	11.5	6.2	2.1	0.5	4.1	6.9	1.8	0.7
Mozambique	1.8	5.7	1.6	0.3	6.0	7.3	1.6	0.5
Niger	1.8	1.5	4.6	0.5	3.3	4.1	4.7	1.0
Rwanda	3.1	5.2	2.3	0.0	5.2	6.7	1.4	0.0
Senegal	3.7	7.9	3.4	0.8	4.8	9.7	3.0	1.1
Sierra Leone	2.1	1.8	4.3	0.0	3.3	2.3	2.7	0.2
Tanzania	2.7	3.4	2.9	1.2	3.7	3.4	3.5	0.8
Togo	3.6	2.5	5.9	0.0	3.6	3.3	8.9	0.4
Uganda	2.4	4.5	4.2	0.0	3.5	1.6	6.0	0.4
Zimbabwe	13.4	7.2	3.4	0.6	6.3	6.8	2.2	0.3

Source: AfDB



**Table A3. Saving and Investment (% GDP)**

Country	Gross Domestic Investment (% GDP)				Savings (% GDP)			
	2000	2005	2010	2015	2000	2005	2010	2015
Benin	23.6	17.8	23.1	25.0	14.27	9.93	8.86	10.36
Burkina Faso	20.1	24.1	26.9	31.0	3.46	8.71	15.79	4.65
Burundi	2.8	22.4	30.5	27.8	12.98	15.09	7.8	2.39
Cameroon	16.7	19.1	19.0	20.7	13.83	13.36	17.52	17.84
Central African Republic	11.1	9.8	14.3	10.2	8.92	3.28	4.12	4.11
Chad	23.3	20.7	34.5	33.8	8.56	21.75	25.52	21.61
Comoros	6.3	10.6	15.1	28.4	9.86	2.88	15.22	11.64
Cote d'Ivoire	10.5	13.9	13.4	17.0	13.51	3.58	5.72	6.05
Democratic Republic of Congo	14.4	11.8	15.9	20.7	10.44	14.17	16.77	16.11
Djibouti	8.8	19.0	.	.	4.99	22.92	21.29	18.5
Eritrea	22.0	20.3	9.3	.	-26.54	-28.44	-9.26	2.38
Ethiopia	.	.	.	38.0	16.8	17.14	24.49	28.79
Gambia, The	4.6	29.5	18.4	.	-1.1	11.64	5.03	11.43
Ghana	24.0	29.0	26.0	27.1	14.45	16.83	19.58	15.21
Guinea	20.5	19.5	10.6	14.0	13.79	19.17	-0.25	-14.89
Guinea-Bissau	4.5	4.6	6.6	6.9	18.14	6.38	-2.24	9.6
Kenya	17.4	17.6	20.7	21.4	16.37	17.01	14.81	10.97
Lesotho	41.3	22.0	29.1	.	36.98	33.69	19.17	24.78
Liberia	7.5	19.5	19.5	19.5	.	.	.	.
Madagascar	15.0	22.2	20.8	14.8	12.16	18.89	13.74	15.34
Malawi	13.6	22.7	26.0	15.4	6.63	8.09	31.78	5.97
Mali	20.2	22.0	24.5	24.1	13.71	18.73	22.8	17.73
Mauritania	20.6	59.0	36.5	43.3	15.71	20.04	29.18	19.83
Mozambique	33.1	19.0	23.9	51.4	22.75	8.58	7.14	13.62
Niger	11.4	22.8	40.0	40.3	6.23	14.19	25.45	25.35
Nigeria	7.0	5.5	17.3	15.8	24.15	39.07	21.16	16.01
Rwanda	13.4	15.8	23.2	26.3	15.36	21.84	17.84	14.37
Sao Tome and Principe	.	.	.	.	8.64	55.87	32.59	-2
Senegal	20.5	24.5	22.1	26.0	13.47	15.64	17.64	19.09
Sierra Leone	1.1	11.5	31.1	.	-7.63	4.18	9.58	1.44
Somalia	.	.	.	.	.	.	.	.
South Sudan	.	.	10.3	10.4	.	.	.	.
Sudan	24.9	28.1	23.0	18.3	18.63	13.1	18.04	9.57
Tanzania	16.8	21.5	27.3	31.0	10.72	19.89	21.25	21.88
Togo	15.2	16.3	18.9	21.3	4.39	6.65	17.63	10.69
Uganda	19.5	22.4	25.6	27.5	20.26	27.41	16.91	20.59
Zambia	.	.	29.9	.	6.5	28.18	37.41	29.75
Zimbabwe	13.6	1.5	24.0	13.2	.	.	8.01	-8.95
<b>Sub-Saharan Africa</b>	<b>16.3</b>	<b>17.4</b>	<b>21.0</b>	<b>21.9</b>	<b>17.8</b>	<b>22.8</b>	<b>19.7</b>	<b>15.4</b>
<b>ADF Countries</b>	<b>13.2</b>	<b>12.9</b>	<b>15.2</b>	<b>17.2</b>	<b>13.2</b>	<b>15.4</b>	<b>13.5</b>	<b>13.6</b>

Source: AfDB

**Table A4. Domestic Debt (% of GDP)**

Country	2010	2014	2015	2016(p)	2017(p)	2018(p)
Benin	11.4	10.8	14.7	16.6	17.6	19.2
Burkina Faso	5.9	9	9.3	9.4	11.1	11.8
Burundi	15	14.1	12.4	12.2	12	11.6
Cameroon	6.5	8.8	10.9	12.3	12.7	14.5
Central African Republic	13.3	11.8	15.9	13	13.1	13
Chad	7.7	7.4	13	14.6	13.7	12.5
Congo, Democratic Republic	5.3	4.1	3.7	3.1	2.6	2.1
Cote d'Ivoire	16.5	18.8	17.4	17.2	17.7	17.8
Comoros	8.4	5.2	4.1	2.6	2.6	2.7
Djibouti	8.3	6.2	4.5	3.8	3	2.5
Ethiopia	14.7	19.1	24.1	28.4	30.2	31.8
Gambia	33.2	54.1	48.6	46.4	41.9	38.3
Ghana	20.7	27.8	26.3	24.3	22.3	19.2
Guinea	10.1	13.8	15	12.5	10.4	8.6
Guinea Bissau	29.4	34.7	32.9	32.9	32.7	27.5
Kenya	22.6	25.1	26.5	26.2	25.5	24.8
Lesotho	2.1	1.6	2.6	5.5	5	4.5
Liberia	2.6	2.6	1.3	0.6	0.4	0.8
Madagascar	9.5	11.4	9.9	8.6	7.5	6.7
Malawi	23.1	28.5	25	22.8	18.8	18.2
Mali	4.4	7.5	8.6	8	8.4	8.3
Mauritania	10.5	4.7	4.8	4.7	4.7	4.8
Mozambique	5.4	8.5	10	8.7	6.8	5.9
Niger	6.2	5.1	7	6.9	5.4	3.8
Nigeria	10.7	11.4	12.9	13	12.9	13
Rwanda	0.2	6.2	6.5	5.8	5.9	5.7
Sao Tome and Principe	0	0	0	0	0	0
Senegal	12.2	13.8	10.5	16.9	16.6	16.9
Sierra Leone	10.6	10.6	12.5	15.3	15	14.7
Somalia	.	.	.	.	.	.
South Sudan	.	3.1	2.1	0	0	0
Sudan	11.1	10.8	9.8	9.1	8.4	7.5
Tanzania	6.5	7.7	13.1	12.6	11.6	10.8
Togo	28.5	31.5	33.2	32.8	32	31.7
Uganda	8.8	12.8	13.6	14.2	14.3	14.4
Zambia	12	16.7	14.3	13.8	13.4	13.1
Zimbabwe	0	11.7	11.7	10.3	10	9.1
<b>ADF Average</b>	<b>10.1</b>	<b>10.8</b>	<b>12.05</b>	<b>12.4</b>	<b>11.8</b>	<b>11.7</b>
<b>ADF without Nigeria</b>	<b>9.8</b>	<b>10.8</b>	<b>11.7</b>	<b>12.3</b>	<b>11.6</b>	<b>11.6</b>

Source: AfDB -compiled from IMF Article IV various issues

**Table A5. Estimating the Financing Gap to double GDP, to achieve SDGs**

Country	Investment (%GDP) (2005-2015)	Savings (%GDP) (2005-2015)	ODA (%GDP) (2005-2015)	Average Growth (2005-2015)	Investment Required to double GDP in 10yrs (%GDP)	Financing GAP (%GDP)
Benin	18.5	10.6	8.0	4.3	30.2	11.7
Burkina Faso	17.5	9.8	12.0	6.4	19.3	1.8
Burundi	19.1	7.1	32.5	4.4	30.4	11.3
Cameroon	20.4	17.4	2.5	3.3	43.9	23.4
Central African Republic	12.5	4.3	12.2	2.6	34.2	21.7
Chad	28.7	22.3	4.7	5.0	40.5	11.8
Comoros	15.2	9.6	9.7	2.4	44.2	29.0
Cote d'Ivoire	15.0	16.4	13.5	6.6	16.0	1.0
Democratic Republic of Congo	14.3	5.2	3.5	2.3	44.0	29.7
Djibouti	39.7	22.4	9.6	4.9	56.4	16.8
Eritrea	9.4	-4.2	10.5	2.2	30.1	20.6
Ethiopia	27.6	25.7	11.8	10.8	17.9	-9.7
Ghana	23.8	16.1	4.7	6.9	24.3	0.5
Guinea	14.8	1.0	6.5	2.4	43.3	28.4
Guinea-Bissau	6.8	4.2	14.8	3.2	14.9	8.1
Kenya	20.6	14.3	4.2	5.8	24.9	4.3
Lesotho	31.3	26.7	7.1	4.4	49.9	18.6
Liberia			56.4	7.6		.
Madagascar	20.5	15.1	5.4	3.2	45.3	24.8
Malawi	16.4	8.5	21.1	5.5	21.0	4.7
Mali	26.8	20.5	12.6	4.7	39.8	12.9
Mauritania	40.1	24.9	8.8	5.2	53.7	13.6
Mozambique	30.2	10.3	18.4	7.2	29.4	-0.7
Niger	40.3	23.2	12.7	5.2	54.4	14.0
Nigeria	16.4	20.2	0.7	6.3	18.2	1.8
Rwanda	23.9	16.4	19.2	7.5	22.4	-1.5
Sao Tome and Principe	38.0	15.9	25.0	4.5	58.6	20.7
Senegal	27.0	17.5	7.8	3.9	48.0	21.1
Sierra Leone	13.0	2.7	16.8	5.4	16.9	3.9
South Sudan	12.6	12.3	11.8	4.2	21.0	8.4
Sudan	20.0	12.5	4.8	3.4	41.4	21.4
Tanzania	30.6	21.6	9.0	6.7	32.1	1.6
The Gambia	20.7	10.3	12.7	4.8	30.3	9.6
Togo	23.5	13.6	7.2	4.0	40.9	17.4
Uganda	29.5	21.7	10.2	6.8	30.4	0.9
Zambia	31.0	34.5	6.8	7.5	28.9	-2.1
Zimbabwe	13.3		8.3	4.2	22.3	9.0
<b>ADF Financing GAP</b>	<b>20.6</b>	<b>15.1</b>	<b>9.7</b>	<b>4.8</b>	<b>30.4</b>	<b>11.3</b>

Source: AfDB staff computations

**Table A6. External Debt Stock (% of GNI)**

External Debt (% GNI)					
Country	2005	2010	2015	2017(p)	2018(p)
Benin	32	22.1	15	15.2	15.2
Burkina Faso	36.5	22.7	15.8	16.1	16.6
Burundi	129.4	33.4	11.2	10.4	9.6
Cameroon	47.3	13.2	16	17.9	19.2
Central African Republic	76	29.7	37.3	37.2	37.6
Chad	34.4	19.9	13.4	14.1	15
Comoros	72.7	52.7	13.6	14.4	15.2
Congo, Dem. Rep.	95.4	31.4	23.8	23.9	23.4
Cote d'Ivoire	65.8	43.7	23.8	22.3	21.1
Djibouti	60.4	.	74.4	74.8	72.8
Eritrea	68.8	58.1	.	.	.
Ethiopia	50.6	22.1	21.7	23.8	24.5
Gambia, The	115.7	51.2	36	34.6	32.8
Ghana	71.4	30.4	50.6	48.6	46.1
Guinea	96.3	78.5	21.1	21.1	20.5
Guinea-Bissau	177.6	124.2	23.8	22.3	21.1
Kenya	34.9	21.8	29	30.8	30.9
Lesotho	37.9	33.4	24.9	24.9	24.3
Liberia	1030.3	42.3	17.9	20	21.9
Madagascar	65.5	30.7	18.7	19.1	19.7
Malawi	113	20	32.9	25.5	23.5
Mali	61.5	26.9	15.3	15.3	15.6
Mauritania	106.2	65.8	39.8	39.4	37.1
Mozambique	59.8	33.4	38.4	37.5	36.6
Niger	58.7	26.6	23	24.5	25.6
Nigeria	27.9	6.6	2.3	2.4	2.6
Rwanda	62.9	16.1	19.3	20.5	21.7
Sao Tome and Principe	279.1	89.2	39.9	40.3	39.5
Senegal	44.5	28.9	28.1	28.7	28.4
Sierra Leone	110.2	34.6	23.3	21.6	20.2
Somalia	.	.	.	.	.
South Sudan	.	.	9.6	11.7	14.1
Sudan	77.8	55.9	116.7	111.2	105.8
Tanzania	54.6	29.1	26.4	26.8	27.1
Togo	83.3	44.4	18.6	18.3	18.9
Uganda	52.4	16.4	33.4	37.4	39
Zambia	81.9	24.2	31.3	31.5	31.2
Zimbabwe	80.5	93.9	113.2	118.2	118.1
<b>ADF</b>	<b>49</b>	<b>17.9</b>	<b>19.2</b>	<b>23.4</b>	<b>24.2</b>
<b>Non-ADF Africa</b>	<b>62.1</b>	<b>29.3</b>	<b>31.2</b>	<b>33.1</b>	<b>34.3</b>

Source: IMF

**Table A7. Intended use of Sovereign Bond Issues in selected ADF Countries**

Country	Year	Value (USD million)	Use
Ghana	2007	750	Fund several projects, mainly in energy and transport.
	2013	750	For capital expenditure and refinancing public debt to reduce the cost of borrowing
Cote d'Ivoire	2010	2800	Debt restructuring in the context of the HIPC Initiative - Issued bonds in exchange for defaulted bonds they had issued before, as part of commercial debt restructuring.
	2014	750	Used to finance public investment, especially in areas such as healthcare and education
	2015	1,000	Used for financing the Country's National Development Plan (NDP) which focuses on infrastructure, improving education and healthcare and reducing poverty
Ethiopia	2014	1,000	To invest in infrastructure, notably the Renaissance Dam
Kenya	2014	2,000	Financing infrastructure projects and repayment of a \$600 million loan that matured in August 2014.
Nigeria	2011	500	Ensuring Nigeria's presence in the international market, (2) helping to attract foreign direct investment by increasing information disclosure, and (3) providing a benchmark for sovereign, subnational, and corporate issuances.
	2013	1,000	To finance projects in the electricity sector, which is undergoing privatization; To support the shift from domestic borrowing towards cheaper foreign credit.
Rwanda	2013	400	Construction of a 28-megawatt hydropower plant, the construction of a hotel and payment of some of state-owned RwandAir's debt.
Senegal	2009	200	To finance energy and road projects.
	2011	500	To finance energy and road projects.
	2014	500	Construction of a major highway and the upgrading and repairs of the country's energy infrastructure.
Tanzania	2013	600	Test Market Appetite: This issuance by private placement allowed Tanzanian authorities to gauge potential demand and pricing ahead of Eurobond issuance initially planned for the end of fiscal year 2013/14. The proceeds were intended to be used for building roads, boost power generation and refurbish the nation's railways
Zambia	2012	750	Promoting infrastructure development (energy, roads and railways) and the social sector (health and education).

**Table A8. Sovereign Bond Issues by ADF Countries (2013-2015)**

New Debt Issued in 2015										
Issuer	Issue Date	Maturity (years)	Coupon	Spread (bps)	Currency	S&P Rating	Moody's Rating	Fitch Rating	Issued (USD, Millions)	Sold (USD, Million)
Cameroon	11/12/15	10	9.5	743	USD	B		B	750	750
Ghana	10/07/15	10	10.75	883	USD	B-	B1	BB-	1,000	1,000
Cote d'Ivoire	2/24/15	13	6.375	454	USD		P (B1)	B	1,000	1,000
Zambia	07/23/15	12	8.97	712	USD	B	B1	B	1,250	1,250
New Debt Issued in 2014										
Issuer	Issue Date	Maturity (years)	Coupon	Spread (bps)	Currency	S&P Rating	Moody's Rating	Fitch Rating	Issued (USD, Million)	Sold (USD, Million)
Ethiopia	12/11/14	10	6.625	438	USD		P (B1)		1,000	1,000
Ghana	09/11/14	11	8.125	571	USD		B2e	Be	1,000	1,000
Kenya	06/24/14	10	6.875	429	USD	B+		B+	2,000	1,500
Kenya	06/24/14	5	5.875	418	USD	B+		B+	750	750
Zambia	04/14/14		8.5	598	USD	B+		B	1,000	1,000
Senegal	7/30/14	10	6.25	368	USD	B+	B1		500	500
Cote d'Ivoire	7/23/14	10	5.375	290	USD		B1	B	750	750
New Debt Issued in 2013										
Issuer	Issue Date	Maturity (years)	Coupon	Spread (bps)	Currency	S&P Rating	Moody's Rating	Fitch Rating	Issued (USD, Million)	Sold (USD, Million)
Ghana	08/07/13	10	7.875	527		B	B2	B	1,000	750
Nigeria	07/12/13	5	5.125	395		BB-		BB-	500	500
Nigeria	07/12/13	10	6.375	402		BB-		BB-	500	500
Rwanda	5/2/13	10	6.625	497	USD	B		B+	400	400
Tanzania	3/8/13	7	6.332	427	USD				600	600

Source: Bloomberg, Dealogic