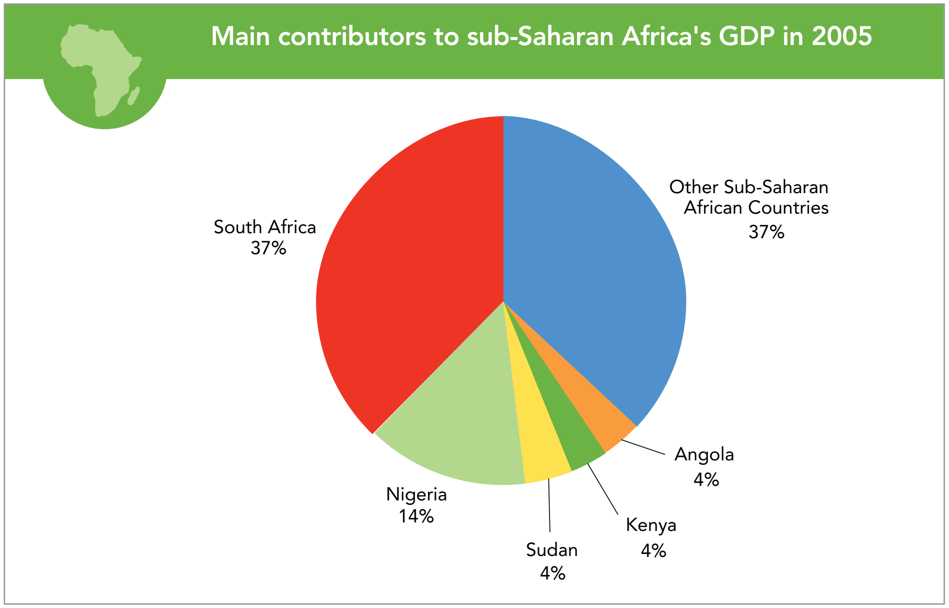
STRUCTURE OF THE ECONOMY



Source: World Development Indicators 2007.

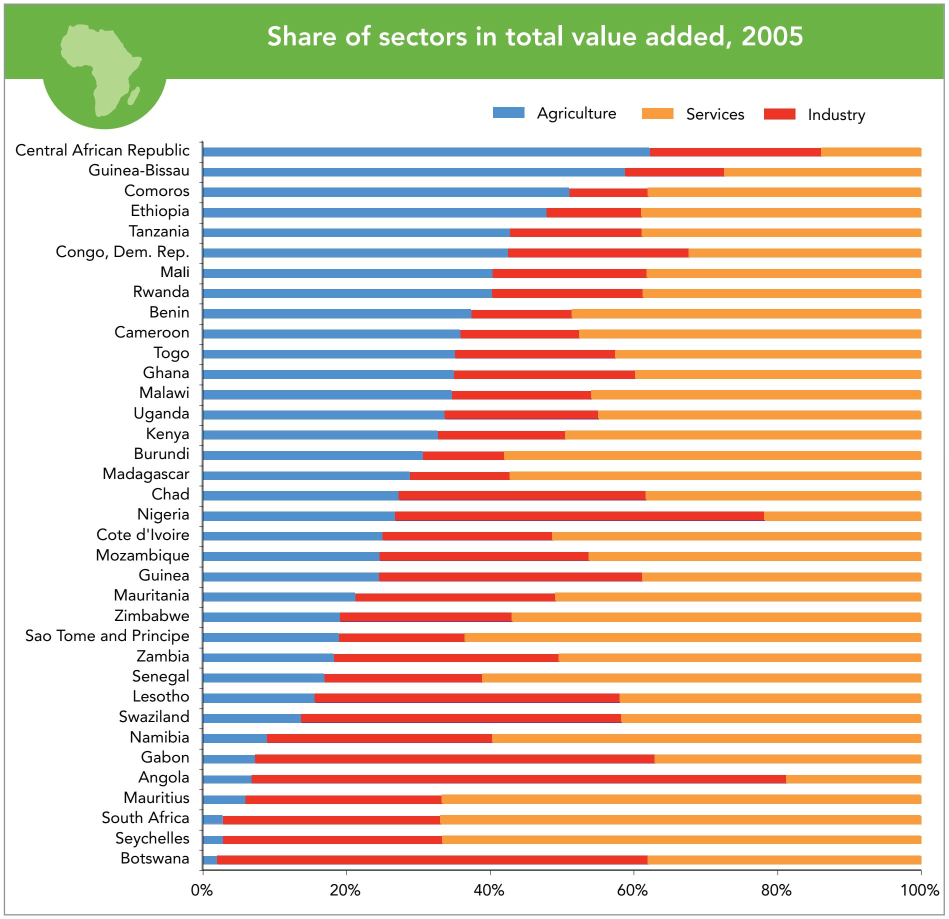
National economies are very diverse.

Some economies are still predominantly based on agriculture, including major African economies like Ethiopia. At the opposite end of the spectrum, agriculture represents less than 10 per cent of GDP in Botswana, Seychelles, South Africa, Mauritius, Angola, Gabon and Namibia.

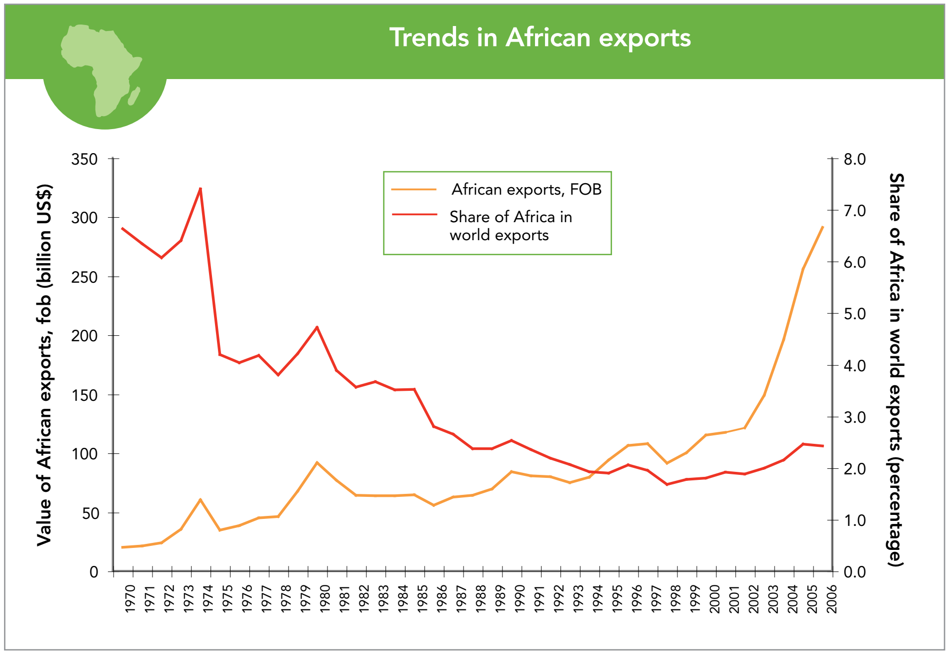
Heavy dependence on primary commodities remains a common feature of production, exports and growth in all the subregions. The majority of African countries are dependent on oil and minerals or a limited range of agricultural commodities such as tea, coffee, cotton and cocoa. This exposes the continent to external shocks and makes economic diversification a top priority for growth policies on the continent.[23]

Nigeria and South Africa account for more than half of sub-Saharan Africa's GDP.

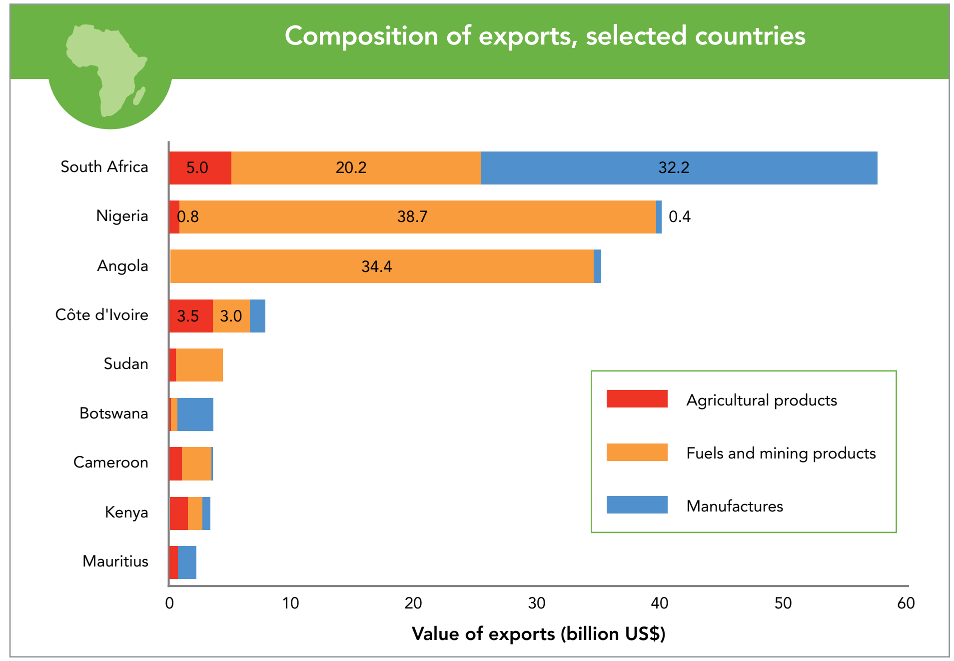
Economic figures for sub-Saharan Africa as a whole can be misleading, because averages often hide a high variability of situations and trends. This is accentuated by the fact that two economies, South Africa and Nigeria, represent more than half of sub-Saharan Africa's GDP. The prominence of these two countries has not changed significantly since 1990. South Africa's economy is largely dominated by services, which account for two thirds of GDP. Nigeria's, by contrast, is predominantly industrial, reflecting the importance of the oil and gas sector.



Source: World Development Indicators 2007.



Source: IMF, 2007.



Source: WTO Statistics Database, 2008.

Exports have increased sharply in the last years.

Africa's share of world exports had been declining for decades to 1.7 per cent in 1998, reflecting the increasingly marginal position of Africa in world commerce. The vigorous growth of African exports since 1998 seems to have reversed this secular trend.

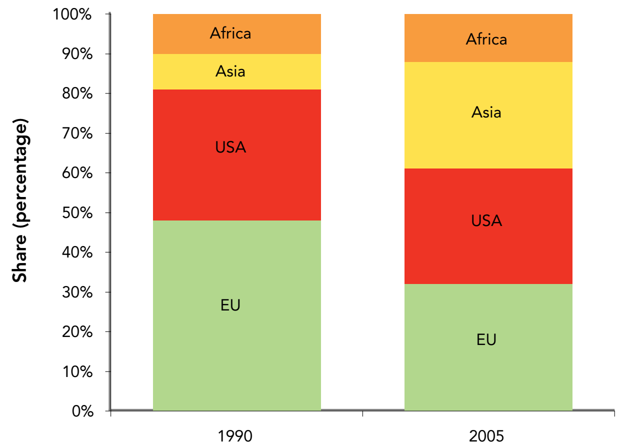
> **"The dramatic new trend in South-South economic relations is transforming traditional patterns of economic development, and this is nowhere more evident than in African-Asian trade and investment flows."**

Gobind Nankani
Vice President for Africa
the World Bank

South Africa aside, exports are highly dependent on raw materials.

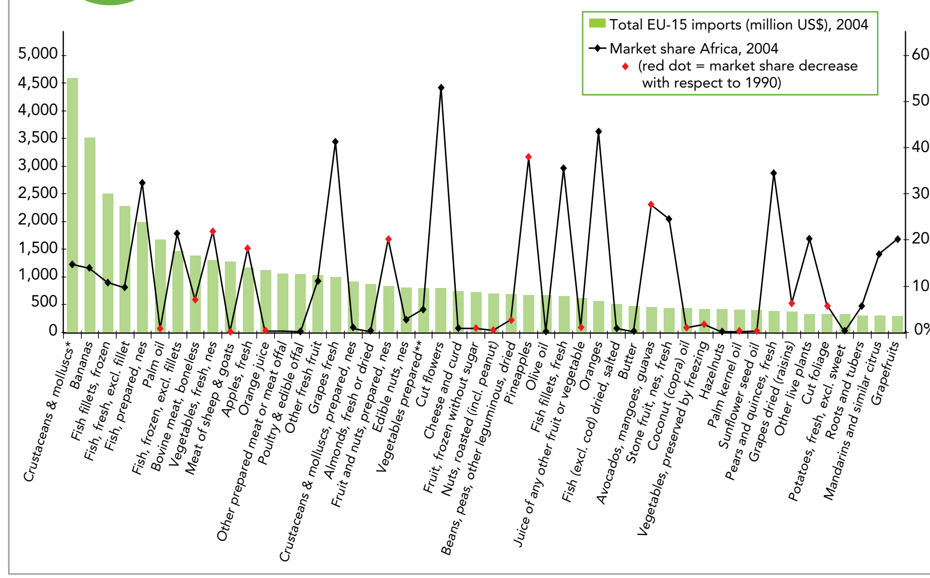
Raw materials constitute more than 60 per cent of sub-Saharan Africa's total exports, second only to the Middle East and North Africa region. By contrast, the structure of exports in Latin America and Asia has become increasingly diversified from raw materials. In Asia, their share in total exports fell from 40 per cent in 1980 to less than 10 per cent today. In Latin America, the share fell from 55 per cent in 1980 to 40 per cent today.

Share of Africa's exports by destination



Source: World Bank, 2006.

Africa's insertion in the EU-15 market for some high-value agricultural goods



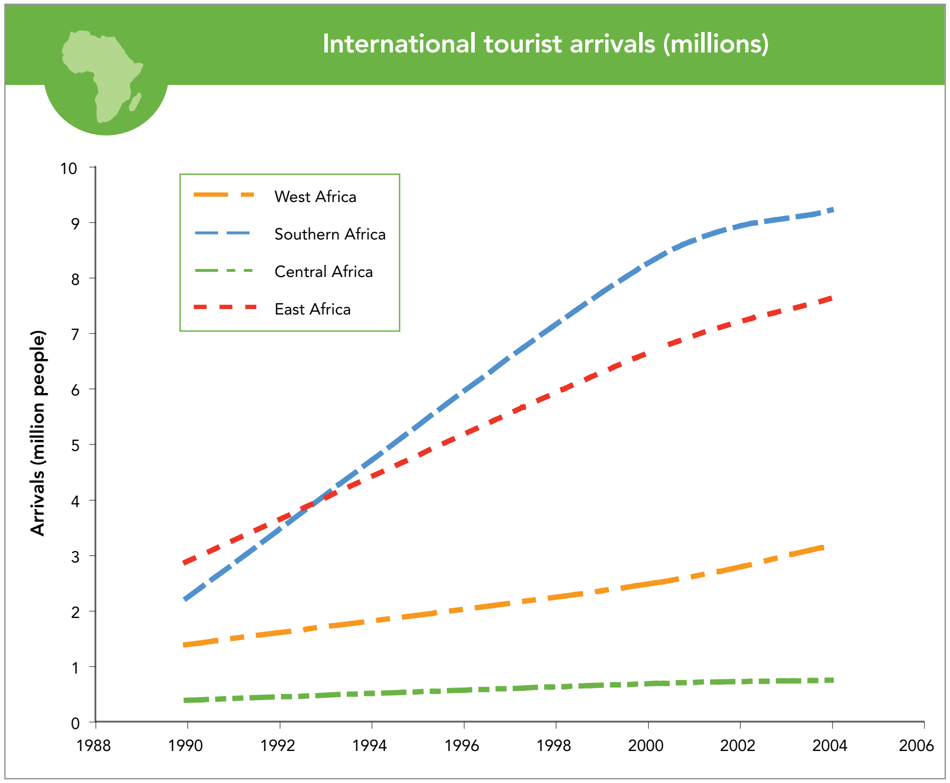
Source: United Nations, 2007.

Asia is rising as Africa's trade partner.

More than a quarter of African exports were headed to Asia in 2005, compared to only 9 per cent in 1990 and 14 per cent in 2000. The volume of trade between Africa and Asia is now almost on par with Africa's exports to the United States and the European Union, Africa's traditional trading partners. Since 2000 there has been a massive increase in trade and investment flows between Africa and Asia. Merchandise exports to China have grown by almost 50 per cent each year between 1999 and 2004, and at more than 10 per cent a year with India and the rest of Asia. Imports of merchandise from China and India have also grown very rapidly in recent years. This recent acceleration of commercial exchanges with India and China reflects the booming economies of the two Asian giants, which are accompanied by a search for raw materials, minerals and fuel. [24]

Sub-Saharan Africa is still weakly integrated in high-value agricultural markets.

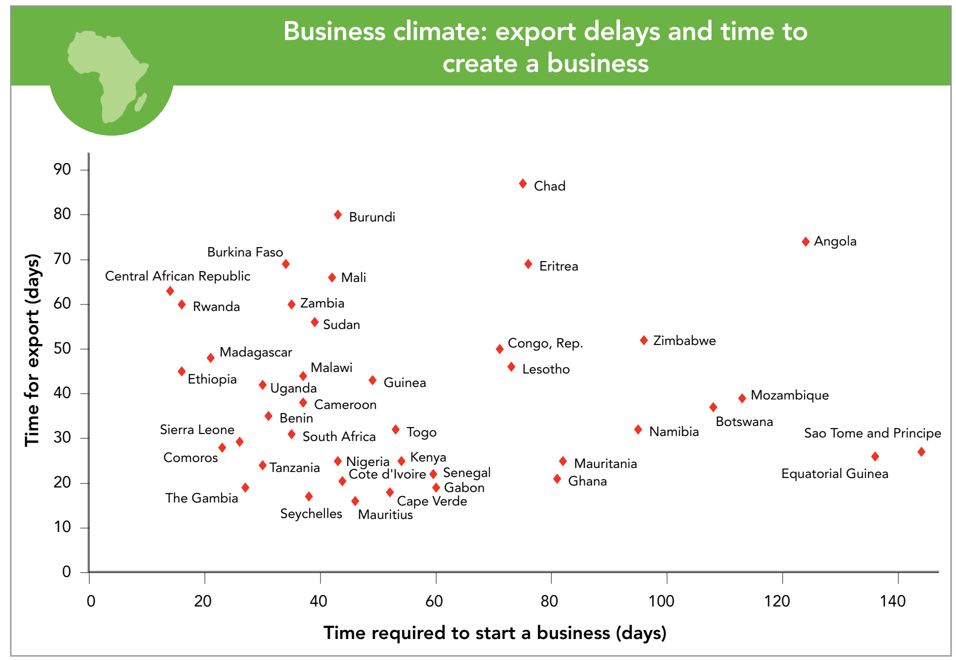
Sub-Saharan Africa's agricultural exports are concentrated in a few commodities (coffee, tea, cocoa, sugar, cotton, bananas). For almost half of the countries in sub-Saharan Africa, agricultural commodities are the main exports. For many of them, reliance on one single agricultural commodity reaches between 50 and 75 per cent of total commodity exports.[25] With the exception of cotton, over the last two decades African producers have steadily been losing market share to Asian and Latin American competitors. Non-tariff barriers such as sanitary and phytosanitary (SPS) standards will likely remain key obstacles for many African countries. Other supply-side constraints that have been identified as major bottlenecks in Africa include poorly funded research and development, relatively weak links to global supply chains, and poor logistics infrastructure to be able to deliver products at the price and in the volumes, quality and timing required by international buyers.



Source: ECA, 2007.

Tourism dominates services exports, both for the region overall and for several countries.

It also exhibits the fastest growth rate of services exports for the region. Tourism is a crucial source of foreign exchange for many countries, in some countries coming before the main agricultural commodities. In Ethiopia, tourism is the third-highest export earner, just after coffee and oil seeds.[26] In terms of earnings, South Africa is the most important tourist destination south of the Sahara, followed by Mauritius, the United Republic of Tanzania and Botswana.[27] There is great potential for further development of the industry in the region. The development of the tourism sector can provide an important source of employment. It could also bring positive spillover effects in terms of improved transportation, enhanced communications infrastructure, and transfers of technology, knowledge, and managerial skills.

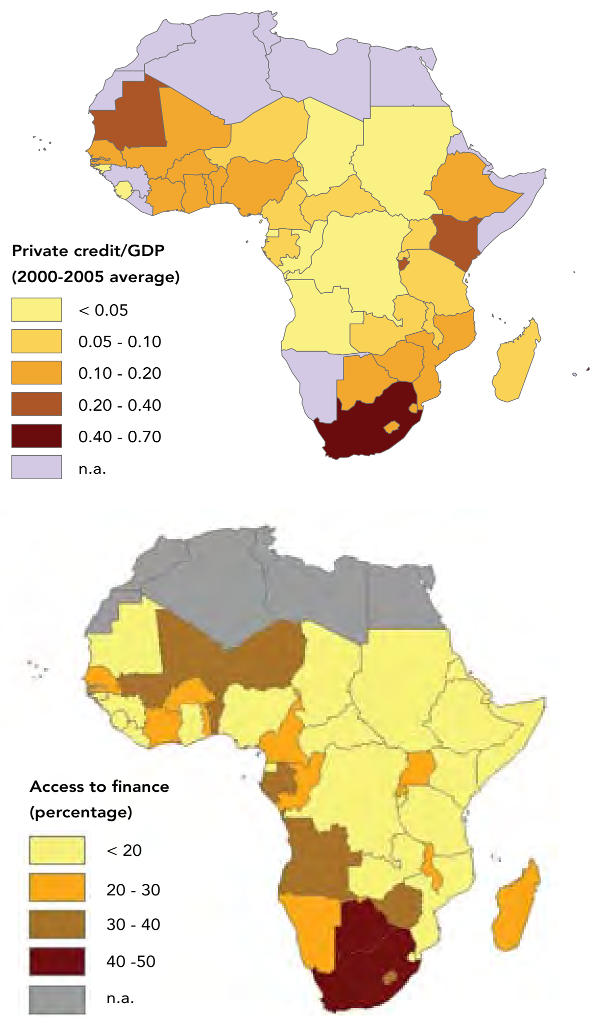


Source: World Development Indicators 2007 and AFDB, 2006.

The business climate tends to work against investment in many countries.

Time to start a business can be very long. The time for export also varies considerably across countries. While island countries or countries with coastal access like Seychelles, Cape Verde, Mauritius and the Gambia have relatively short times for export, landlocked countries like Chad, Burundi and Eritrea, as well as Burkina Faso and Angola, all register very long times for export.

Access to finance and private credit/GDP

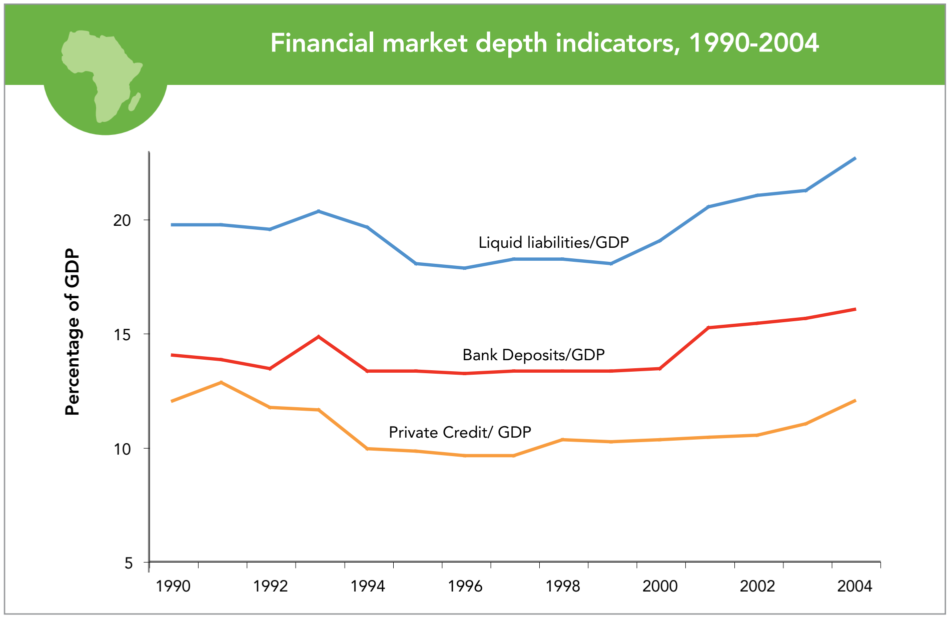


Source: World Bank, 2007.

The breadth and depth of financial systems remain weak in most countries.

In the majority of sub-Saharan African countries, it is estimated that less than 20 per cent of the adult population has access to formal sources of finance. Depth of financial systems, as seen through the ratio of private credit to GDP, is also weak compared to other developing countries. South Africa presents an exception, with fairly developed financial markets.[28]

Among the factors that contribute to low access rates are the low population densities and communications and transportation deficiencies. Most sub-Saharan African countries have lower branch and ATM penetration than developing countries in other regions. Affordability is another important barrier. Low levels of income and irregularity of income flows have tended to make large parts of the population "unbankable" in the eyes of traditional financial service providers.[29]



Source: World Development Indicators 2007 and AFDB, 2006.

The recent years have witnessed a trend towards a deepening of financial markets, notably since 2000.

Recent technological advances, such as mobile branches or banking by mobile phone, have recently helped extend access. By contrast, African capital markets are still underdeveloped. The stock market capitalization of the whole continent is estimated at $800 billion, of which South Africa itself makes up $600 billion.

Regional or subregional integration of financial and capital markets is still weak. However, there are some encouraging trends. In 2001, the eight members of the West African Economic and Monetary Union (WAEMU) set up a regional treasury bill market. With all countries issuing securities, the market has been growing rapidly, boosted by tax and regulatory incentives. Cross-border sales of treasury bills among WAEMU countries point to a growing integration of financial markets in that region.[30]