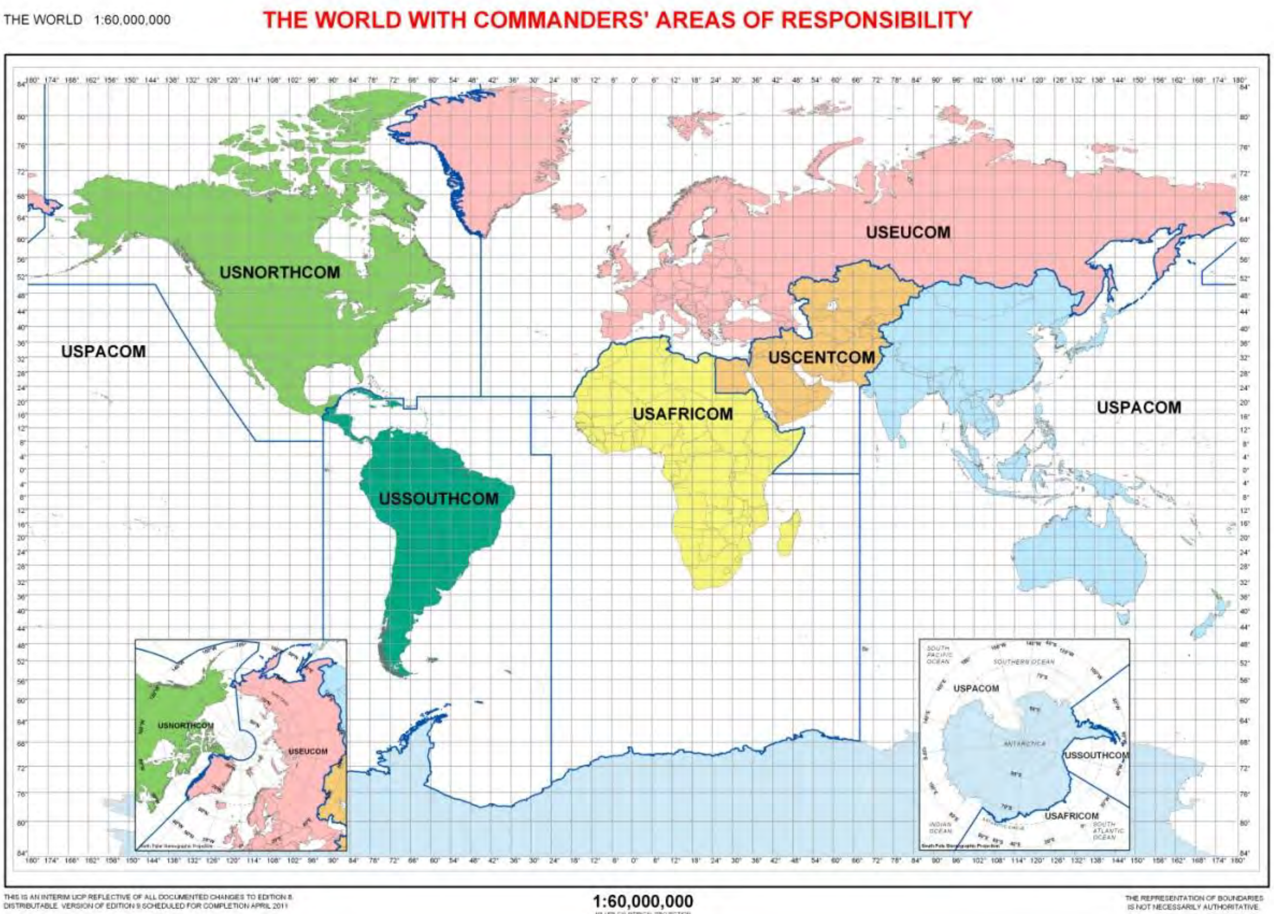

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U.S. Africa Command

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General Stephen J. Townsend, U.S. Army

AFRICOM Commander

U.S. Army Gen. Stephen J. Townsend became the fifth commander of the United States Africa Command on July 26, 2019.

General Townsend leads a command responsible for building defense capabilities, responding to crises, deterring and defeating transnational threats in order to advance U.S. national interests and promote regional security, stability, and prosperity, all in concert with interagency and international partners. U.S. Africa Command is one of six U.S. Department of Defense geographic combatant commands.

Townsend previously served as the commanding general of the U.S. Army Training and Doctrine Command. Raised in an Army family, he commissioned as an infantry officer upon graduating from North Georgia College in 1982. Townsend has led and commanded troops at every echelon from platoon to corps and combined joint task force, to include leading all U.S. and multi-national forces fighting the Islamic State in Iraq and Syria as the commander, Combined Joint Task Force - Operation Inherent Resolve.

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STATEMENT OF

GENERAL THOMAS D. WALDHAUSER, UNITED STATES MARINE CORPS

COMMANDER

UNITED STATES AFRICA COMMAND

BEFORE THE

SENATE COMMITTEE ON ARMED SERVICES

7 FEBRUARY 2019

A secure, stable, and prosperous Africa

is an enduring American interest.

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INTRODUCTION

Chairman Inhofe, Ranking Member Reed, and distinguished members of the committee, I am honored to represent the men and women of U.S. Africa Command and share with you their accomplishments over the past year. Since I last updated the committee, the new National Security, Defense, and Military Strategies, the U.S. Strategy Toward Africa, the National Strategy for Counterterrorism, the Department of Defense Strategy for Africa, and a new U.S. Africa Command Strategy and Campaign Plan have shaped our efforts on the continent. Each of these foundational documents acknowledges and underscores the strategic importance of Africa and the command's mission: *U.S. Africa Command, with partners, strengthens security forces, counters transnational threats, and conducts crisis response in order to advance U.S. national interests and promote security, stability, and prosperity.*

Africa is an enduring interest for the United States, and security is a pre-requisite for economic growth and development. As a partner-based command, U.S. Africa Command assists African nations in building capable and professional militaries subordinate to elected civilian authority and respectful of human rights, the laws of armed conflict, and international humanitarian law. By making deliberate investments in defense institutions, the U.S. can assist African partners in meeting the basic conditions needed for good governance, economic development, and stability.

During 2018, U.S. Africa Command commemorated its tenth year as a geographic combatant command, reaffirming Africa's importance to the U.S. global strategy for defending and ensuring the economic well-being of the U.S. homeland. Our network continues to focus on shared goals of a secure, stable, and prosperous Africa, which benefits not only our African partners and the U.S., but also the international community.

Headquarters U.S. Africa Command employs a team of military, civilian, interagency, and contract professionals to fulfill the mission. Moreover, U.S. Africa Command is supported by families who bring with them the spirit of community and teamwork, without which the command could not succeed. U.S. Africa Command has partnerships with the Department of State, U.S. Agency for International Development (USAID), and other interagency organizations who all work towards providing stability and prosperity on the continent. Globally, we collaborate with our European allies, the United Nations, the African Union and regional mechanisms, the European Union, non-governmental organizations, and other groups to pursue stability and security in Africa.

By employing a partner-centric approach, U.S. Africa Command complies with the specific direction in the National Defense Strategy to "support relationships to address significant terrorist threats in Africa." To address this directive, U.S. Africa Command builds on two strategic principles. First, very few, if any, of Africa's challenges can be resolved using only military force. Consequently, U.S. Africa Command emphasizes military support to diplomacy and development efforts. Our activities directly complement Department of State and USAID efforts to reduce the spread of harmful ideologies, strengthen governments who protect their citizens and foster security and economic successes.

Second, persistent pressure on terrorist networks—whether it be operational, financial, or political—is necessary to prevent the destabilization of our African partner nations. Our principal means for applying pressure is working through our African and with our international partners, increasing their security capabilities and, only when necessary, using kinetic force. Ultimately, our use of military force in Africa, for example in Libya and Somalia, supports the host government's effort to provide the security and economic growth required for long-term stability and prosperity.

By design, U.S. Africa Command military assistance and activities occur in partnership with the host government and within overlapping regional and global mandates. In Somalia, the command supports the Federal Government of Somalia, while operating in support of African Union and United Nations mandates. In the fight against Boko Haram and ISIS-West Africa (WA), we operate with partners in the African Union-endorsed Multinational Joint Task Force, which was established under the auspices of the Lake Chad Basin Commission. In the Sahel, we partner with five national governments and within the overlapping mandates of the G-5 Sahel and the United Nations. In Libya, our activities support the UN-led political reconciliation process and the UN-recognized Government of National Accord. Even when we operate unilaterally, those actions are firmly embedded in international law and international legitimacy.

U.S. Africa Command also plays a significant role in advancing the priorities outlined in the National Security and Defense Strategies, which emphasize the rise of China and Russia as key competitors. U.S. Africa Command has also observed increased engagement of non-traditional security actors, such as Qatar, Saudi Arabia, Turkey, and the United Arab Emirates, as both challenges and opportunities to our mission. U.S. Africa Command strives to ensure the U.S. remains the partner of choice, in Africa, by maintaining our high standards of professionalism, demonstrating commitment to addressing their security needs, and providing high-quality equipment.

Targeted investments in innovative, cost-effective, and sustainable approaches are common practices within Africa, and U.S. Africa Command endeavors to maximize the returns on our investments. For example, our strategy in Somalia features a distinct set of Advise, Assist, and Accompany authorities in support of the Federal Government of Somalia and the African Union Mission in Somalia (AMISOM) to provide the opportunity for the Somali National Security Forces to successfully assume security responsibilities. This carefully tailored level of operational support reduces risk to U.S. personnel and is a cost-effective way to further advance U.S. security interests.

Each day, we have approximately 7,000 personnel conducting their assigned tasks on the African continent. These include U.S. uniformed personnel, Department of Defense civilians, and contractors of all Services, career fields, and specialties working to address global security challenges and maintain strategic access and influence. These personnel perform duties in countries such as Cameroon, Djibouti, Kenya, Niger, and Somalia. Over the course of 2018, the command and our component commands conducted numerous engagements, exercises, security cooperation events, and operations across the continent. These activities strengthen mutually beneficial networks between the U.S. and partners and enhance the capability of partner nation defense forces to provide effective and legitimate security.

STRATEGIC ENVIRONMENT

For scale, Africa is over three times larger than the U.S. The U.S. Africa Command Area of Responsibility encompasses 53 countries with a population of 1.3 billion. By 2050, this figure is forecasted to almost double to over 2.54 billion, with one out of every four people on the planet living on the African continent. Additionally, the continent faces a large and growing youth population as Africa is home to 21 of the 22 countries in the world with the youngest average populations. Forty-one percent of Africans are under the age of 15, while 60 percent of the total population is under the age of 24. Economic development, leading to employment, is necessary in order to assist in preventing conflict, as Africa needs to add approximately 20 million jobs each year to keep pace with the growing population.

The lack of economic and educational opportunities, a large, disenfranchised youth population, and inadequate natural resources are potential drivers of extremism, which, when coupled with authoritarian, corrupt, or ineffective governments, contribute to persistent instability. According to the Fund For Peace's 2018 Fragility State Index, 33 of the 50 countries most at risk of becoming unstable are in Africa. This includes seven of the top ten most fragile states. According to the United Nations Development Programme's Human Development Index, 32 African countries are listed in the "Low Human Development" categories of health, education, security, and employment.

U.S. Africa Command employs the broad-reaching Diplomacy, Development, and Defense approach to foster interagency efforts and help negate the drivers of conflict and extremism. With the Department of State and USAID, U.S. Africa Command supports programs and initiatives fostering political reconciliation and elections in countries such as Libya. Our diplomatic and development partners work with African partners to provide jobs, food, clean water, and education, such as in Ethiopia and Nigeria, helping to counter incentives offered by violent extremists organizations (VEOs) or criminal networks.

In Africa, VEOs remain a serious threat to the shared interests of our partners, allies, and the U.S. These VEOs and criminal networks prey upon disenfranchised populations, creating a cycle of recruitment and allowing extremist ideology to fester. Extremist networks also exploit criminal networks for the illicit transport of narcotics, weapons, and persons. VEOs cultivate and encourage an environment of distrust, despair, and hopelessness to undermine governments, allowing for the expansion of their radical ideology.

Over the next decade, Africa will be shaped by the increased presence of external actors and the effects of environmental change. The U.S. welcomes those partners pursuing helpful and constructive interests in Africa to develop its economic, infrastructure, humanitarian, and security sectors. However, with emerging markets and a growing consumer class, external actors often employ exploitative tactics and “debt trap” diplomacy to garner undue influence.

Over the past decade, China has injected considerable amounts of financing into the continent, including offering key loans to strategically-located countries, like Djibouti, Senegal, and Angola. Chinese interests include gaining greater access to Africa’s mineral and other natural resources, opening markets, and accessing naval ports. In the short term, the complete financial packages can make China appear to be an attractive partner for African nations. For example, African nations who become signatories to China’s Belt and Road Initiative (the BRI) receive promises of development, defense, and cultural investments in their countries, further enhancing China’s influence while challenging our own partnerships in Africa.

African leaders are growing increasingly wary of their business ventures with China. For example, the Nairobi-Mombasa Railway in Kenya has met with criticism for its high price and the relatively low number of African workers in dispatcher and locomotive driver positions, relative to Chinese workers. While Chinese officials say their business agreements come with no strings attached, construction work on the continent is often carried out by Chinese companies and Chinese workers failing to boost local employment. African countries, which can access financing through China’s state-owned banks, often commit to contracts that can lead to debt-equity swap arrangements when debt obligations are unfulfilled. For Kenya, which financed 90% of the total $3.6 billion railway project from China in 2014, loan repayment rates are scheduled to triple in 2019 per the conditions of the loan agreement risking this scenario.

Russia is also a growing challenge and has taken a more militaristic approach in Africa. By employing oligarch-funded, quasi-mercenary military advisors, particularly in countries where leaders seek unchallenged autocratic rule, Russian interests gain access to natural resources on favorable terms. Some African leaders readily embrace this type of support and use it to consolidate their power and authority. This is occurring in the Central African Republic where elected leaders mortgage mineral rights—for a fraction of their worth—to secure Russian weapons. Russia also garners additional support at the United Nations and gains more customers for its military arms sales.

Russia is more deliberate in Libya as they invoke Qaddafi-era relationships and debts to obtain economic and military contracts. These agreements are aimed at accessing Libya's vast oil market, reviving arms sales, and gaining access to coastal territories on the Mediterranean Sea, providing Russia closer access to Europe's southern border.

Consequently, the cross-border and global nature of Chinese and Russian actions and influence in Africa necessitates collaboration between U.S. Africa Command, U.S. European Command, U.S. Central Command, and U.S. Indo-Pacific Command, amplifying the global complexity of this issue.

The second emergent challenge in Africa is the effect of environmental change on African security. A large number of Africans make their living on the land, whether they grow crops or raise livestock, and many live at a subsistence level. Settled farmers and nomadic herdsmen are increasingly engaged in land-use disputes, which are emerging as major driver of conflict in central Mali, through the Middle Belt Region of Nigeria, in South Sudan, and into the Central African Republic. More people are competing for less arable land, while both modern state institutions and customary institutions are failing or have failed to regulate this competition.

Poor land-use policies, changing weather patterns, rising temperatures, and dramatic shifts in rainfall contribute to drought, famine, migration, and resource competition. In the greater Sahel region, the Sahara Desert has expanded southward by over 10 percent since the 1920s, reducing the amount of productive land. Due to changes in weather patterns aggravated by poor resource management, Lake Chad has contracted 90 percent since the 1960s, significantly decreasing the region's largest source of fresh water. The reduction in arable land for crops and grazing land for livestock has created strong competition between the region's farmers and herders who migrate across borders searching for usable land. As each group seeks land for its own purposes, violent conflict can ensue. Armed groups and criminal networks exploit this situation, leading to human trafficking, slavery, and more violence.

Environmental degradation and the overuse of natural resources exacerbate weak or ineffective governments who are unable to respond and cope with their already serious, on-going political, economic, and social challenges. U.S. Africa Command and our partners are investing to build the capability and capacity of governance, infrastructure, and defense institutions, so African governments can mitigate the effects of environmental degradation. This can be accomplished with, for example, sustainable electric grids, viable water treatment facilities, environmentally-sound agricultural developments, and professional security forces.

Despite the challenges on the continent, Africans are eager and receptive to work with the U.S. to advance common strategic interests. Africa's future depends on urgent action to address the needs of growing populations, mitigate the influence of harmful activities, and combat the effects of environmental change. U.S. Africa Command's role within the Diplomacy, Development, and Defense construct supports partner efforts to enable economic growth and prosperity by providing a stable security environment.

U.S. AFRICA COMMAND STRATEGIC APPROACH

The successful advancement of U.S. interests in Africa is best achieved with stable nations on the continent. Accountable governments, well-trained and disciplined militaries with a respect for the rule of law and human rights, and growing economies are cornerstones to this stability. Over the past year, consistent with the updated national strategies, U.S. Africa Command revised our strategic approach to effectively strengthen our African partners by evolving our security cooperation from a focus on crisis response to capability and capacity building against our new strategic priorities: state fragility, increased involvement of China and Russia, VEO expansion, and threats to U.S. access and influence.

The U.S. Africa Command strategy prioritizes five objectives: 1) African Partners contribute to regional security, 2) threats from VEOs and transnational criminal organizations (TCOs) are reduced to a level manageable by internal security forces, 3) U.S. access and influence are ensured, 4) U.S. Africa Command sets the theater by aligning forces, authorities, capabilities, footprints, and agreements, and 5) U.S. personnel and facilities are protected. These objectives nest within the foundational strategies and provide the framework for the revised five-year focus in the U.S. Africa Command Campaign Plan and the U.S. Africa Command Theater Posture Plan.

FOUNDATIONAL STRATEGIES

For U.S. Africa Command, the 2018 National Defense Strategy underscore the importance of our African Partners, European, and international alliances to build partner capabilities and capacity in order to create a more secure, stable, and prosperous continent. Furthermore, the strategies emphasize the protection of the American people, homeland, and the American way of life.

The National Defense Strategy focuses on Great Power Competition and expanding the use of lethality, partnering, and process reform. Additionally, the National Defense Strategy continues to emphasize the threat posed by VEOs to the U.S. homeland, our allies, and our African Partners. Much like the National Defense Strategy, U.S. Africa Command links VEOs to instability in Africa. Hence, the importance of alliances and partnerships is amplified in the command's strategy and campaign plan and in the command's response to regional crises, whether humanitarian or security related.

Two other key foundational documents provide the policy guidance to synchronize U.S. Africa Command efforts with that of the whole of the U.S. Government. First, the Department of Defense Strategy for Africa mandates U.S. Africa Command strengthen African security forces and develop institutions at the national and regional levels. U.S. Africa Command's focus on security cooperation is a key component in the U.S. whole-of-government approach. Moreover, by seeking low-cost and resource-sustainable security solutions, the Department of Defense Strategy for Africa framework sets the conditions for U.S. Africa Command to adapt to current and emergent challenges in Africa.

Next, the National Strategy for Counterterrorism emphasizes the use of all instruments of American power, with a focus on non-military capabilities. The strategy's framework encourages working with a wide-range of partners in both the public and private sectors (e.g., technology, financial institutions) and allied governments to encourage counterterrorism burden-sharing. Information sharing, counter-finance, reintegration of returning foreign fighters, and counter-messaging promote positive narratives to increase partner awareness and strengthen partner capability to address the broader counterterrorism challenges within Africa. These foundational strategies are synchronized with the U.S. Africa Command Strategy and Campaign

Plan, promoting a consistent approach, over time, to strengthen relationships and enhance the capability of our African partners.

In December 2018, the President signed the U.S. Strategy Toward Africa, which focuses on economic partnerships to build self-reliance among our African partners in the era of great power competition with external actors, such as China and Russia. This strategy aims to advance trade and commercial ties with key African states to increase U.S. and African prosperity. Doing so helps to protect the U.S. from cross-border health and security threats, and supports African states' progress toward stability and citizen-responsive governance. The strategy also prioritizes foreign assistance to help our African partners achieve sustained economic growth and self-reliance to combat transnational threats. Ultimately, the U.S. Africa Command Strategy seeks to strengthen partnerships to increase U.S. influence, protect U.S. personnel and facilities, and ensure access, as specifically directed in the U.S. Strategy Toward Africa.

U.S. AFRICA COMMAND CAMPAIGN PLAN

Based on the National Security and Defense Strategies, and as indicated in our mission statement, the revised U.S. Africa Command Campaign Plan provides the command, and our component commands, strategic direction to advance our strategic goals on the continent. It does so in a burden-sharing and balanced approach, accounting for the increased presence of external actors, namely China and Russia, and the continued threat posed by VEOs.

To achieve the U.S. Africa Command Campaign Plan objectives, the command emphasizes six approaches: 1) Strengthen Partner Networks; 2) Enhance Partner Capability; 3) Develop Security in Somalia; 4) Contain Instability in Libya; 5) Support Partners in Sahel and the Lake Chad Region; and 6) Set the Theater to facilitate U.S. Africa Command day-to-day activities, crisis response, and contingency operations.

Strengthen Partner Networks

U.S. Africa Command strives to further U.S., allied, and partner interests and access to mitigate destabilizing influences on the continent. The Strengthen Partner Network approach is the primary effort in which the command seeks to establish new partnerships with countries and organizations, strengthen existing relationships through enhanced communication and synchronization, and counter the activities of external actors such as China and Russia. This approach focuses on maintaining the U.S. as the preferred security partner in Africa.

For example, in April 2018, U.S. Naval Forces Africa conducted Exercise Lightning Handshake with the Royal Moroccan Navy and Air Force. This was the most sophisticated bilateral exercise the U.S. conducted with an African partner. It included a U.S. Carrier Strike Group executing close air support and naval surface fire support missions at the Tan Tan live fire range in Morocco.

Enhance Partner Capability

This approach is applied continent-wide and includes building African partner capability focused on defense institution building, countering illicit trafficking, maritime security, counter-improvised explosive devices (IED) efforts, humanitarian assistance, infectious disease control, and counter-VEO efforts. Engagements and exercises, managed by U.S. Africa Command and its component commands, strengthen key partnerships and improve partner capabilities. Since challenges in Africa intersect the activities of a multitude of U.S. Government agencies and international organizations, U.S. Africa Command maintains a broad group of federal, allied, and partner command liaisons to coordinate our capability-building efforts. One of those mechanisms is our Multilateral Planning Group, tri-chaired by the U.S., France, and the United Kingdom, where we are able to discuss and synchronize our efforts on the continent.

Develop Security in Somalia

This approach supports not only AMISOM and Somali Security Forces, but also the United Nations, European Union, African Union, and other allies and partners contributing to the international effort to counter al-Shabaab and ISIS-Somalia. Anchored by the AMISOM Troop Contributing Countries of Burundi, Djibouti, Ethiopia, Kenya, and Uganda, this approach allows for creating the opportunity to build the capability, capacity, and willingness of the Somali Security Forces. The approach centers on security cooperation, engagements, and exercises, as well as Advise, Assist, and Accompany authorities, to strengthen the Somali Security Forces. Taken in concert with the Enhance Partner Capability approach, the effort also addresses the capacity-building needs of the Troop Contributing Countries. The cumulative effects of the two approaches aim to support Somalia and the Somali Security Forces as they work to achieve regional stability and to support the vision of the Federal Government of Somalia.

Contain Instability in Libya

This approach guides the command's efforts to contain instability brought on by the lack of a unifying government and the presence of VEOs in Libya, which include ISIS-Libya and al-Qaida in the Lands of the Islamic Maghreb (AQIM). The approach is focused on using the military tool to advance diplomacy, conduct operations to degrade VEOs, improve the security architecture of the Libyan Government of National Accord, and, once a political reconciliation is achieved, strengthen the national security forces of a recognized Libyan government. U.S. Africa Command, working with the Libya External Office of the U.S. Embassy to Libya, conducts engagements with Libyan political and military leaders to bolster relationships and maintain progress toward reconciliation. U.S. Africa Command stands firmly with and supports the efforts of the United Nations as it leads the political reconciliation process, the immediate next step for Libyan stability.

Support Partners in the Sahel and Lake Chad Regions

In West Africa, roughly the size of the continental United States, this approach provides capabilities and support to counter-VEO operations, primarily against Boko Haram, Jama'at Nusrat al-Islam wal Muslimin (JNIM), ISIS-Greater Sahara, and ISIS-West Africa. The command's efforts support the Multinational Joint Task Force countries of Benin, Cameroon, Chad, Niger, and Nigeria, and the G5 Sahel Joint Force countries of Burkina Faso, Chad, Mali, Mauritania, and Niger. To support the Multinational Joint Task Force, the G5 Sahel Joint Force, and their individual member states, the command conducts engagements, exercises, and limited operations, and provides appropriate security assistance to increase the partners' willingness and capabilities in counter-VEO efforts.

Set the Theater

The logistics challenges of supporting our engagements on the continent necessitate the command align with a whole-of-government approach to support national security interests. This whole-of-government approach ensures we have the authorities, capabilities, footprint, agreements, and understandings in place to maintain access and accomplish our missions. The U.S. Africa Command Theater Posture Plan details the command's footprint of forces and agreements on the continent. Posture initiatives focus on expanding strategic access to enable day-to-day activities, contingency operations, and crisis response. The backbone of access in Africa is our network of enduring contingency locations and agreements with key African partners, which provides freedom of action and status protection for U.S. personnel.

Ensuring strategic access requires complementary defense, diplomatic, and development efforts across the interagency and with our allied and African partners. An enduring mission of the command is to support the Department of State-led mission to protect U.S. personnel and facilities on the continent. We maintain defense cooperation agreements with several African nations allowing for forward staging locations to enable more efficient recovery and evacuation. As such, we maintain enduring locations and contingency locations throughout Africa, which provide a flexible and diverse posture for operational needs and the protection of U.S. personnel and facilities.

Our capable posture network also allows forward staging of forces to provide flexible and timely responses to crises involving U.S. personnel or interests. At Camp Lemonnier, Djibouti, the only forward and enduring U.S. military installation in Africa, U.S. forces engaged in security cooperation activities, contingency operations, and logistics support to five combatant commands: U.S. Africa Command, U.S. Central Command, U.S. European Command, U.S. Special Operations Command, and U.S. Transportation Command. Camp Lemonnier is our hub in East Africa and remains a vital link to build stability in this key region.

One of U.S. Africa Command's newest and most important posture initiatives is the development of the West Africa Logistics Network. The West Africa Logistics Network provides and positions right-sized aircraft throughout West and Central Africa to facilitate the distribution of supplies, personnel, and equipment to support locations.

IMPLEMENTING THE U.S. AFRICA COMMAND STRATEGIC APPROACH

ACHIEVING AND MAINTAINING INFLUENCE

U.S. Africa Command continues to advance U.S. strategic objectives through the execution of activities and the expenditure of resources to respond to both regional crises and instability, while prioritizing Great Power Competition efforts across the continent. This approach requires the U.S. to continue with our authorities to counter transnational threats, including terrorism and infectious diseases, which threaten African governments and the U.S. and its interests in Africa. It also strives to enhance security cooperation with our African partners, so they may become more stable, well-governed, and self-reliant, thereby setting the conditions for economic growth and development.

U.S. Africa Command aspires to achieve and maintain influence with our allies and African partners through security cooperation, exercises, engagements, operations, and efforts to mature the theater. This requires the synchronization of emerging policy and guidance from the National Defense Strategy and other strategic documents to drive U.S. Government activities and engagements across Africa, reinforced by the importance of capturing a return on investment. As such, the command and its component commands have a firm understanding of the necessity to coordinate a whole-of-government approach toward strengthening relationships and building partner capability in support of national defense objectives.

Consistency in resources is the most effective method for implementing our strategic approach in Africa, as U.S. Africa Command does not have an abundance of dedicated assigned forces. These resources include the authorities, capabilities, funding, and allocated personnel to further our international and interagency relationships and provide appropriate military support and security cooperation to diplomatic and development efforts with our African partners. This consistency allows for the planned execution and delivery of senior leader engagements, security capabilities, and multinational exercises necessary to bring about a secure environment for the advancement of U.S. national interests and sustainment of military advantages.

Additionally, various programs and funding allow U.S. Africa Command to further its campaign objectives. At its headquarters, U.S. Africa Command imbeds fifteen military personnel from allied and partner nations in the Multinational Coordination Center fostering an enduring relationships and increasing interoperability with allies and partners. The foreign military personnel do not command U.S. Forces or make final determinations on plans or directives but do assist in coordinating military engagement efforts and exercises to further U.S. multinational partnerships. Additionally, U.S. Africa Command leads and participates in multilateral planning groups for East Africa, North Africa, and the Sahel region. Likewise, our component commands host senior leader staff talks with their respective component equivalents. The U.S. Army Regionally Aligned Force also assists with the U.S. Africa Command mission. Working within the security cooperation framework, the Regionally Aligned Force executes a significant share of the military-to-military activities in Africa. Sustained access to the Regionally Aligned Force is critical to mission success.

The U.S. National Guard's State Partnership Program is by far one of U.S. Africa Command's most valuable implementing programs. The State Partnership Program pairs 14 African nations with 11 U.S. states and the District of Columbia and creates enduring relationships with their African partners to build and improve peacekeeping capacity, disaster management competency, and overall partner readiness. U.S. Africa Command continues to see a great return on investment with the State Partnership Program, conducting 120 events this past year and engaging over 3,000 partner nation personnel at a cost of four million dollars. We look forward to expanding this outreach as several more African countries have requested partnerships, which are currently under consideration.

Other programs mitigating the lack of dedicated forces and, in turn, building partner capability include the Department of State Global Peace Operations Initiative, the African Peacekeeping Rapid Response Partnership, and the Women, Peace, and Security Initiative. The Department of Defense also coordinates closely with the Department of State on programs in Africa including the Partnership for Regional East Africa Counterterrorism, Trans Sahara Counterterrorism Partnership, Africa Military Education Program, and Africa Maritime Security Initiative to support critical counterterrorism, maritime security and overall military professionalization efforts.

These programs continue to professionalize partner militaries and security forces through training and institution building, and their concepts are integrated into military-to-military engagements; training on human rights, rule of law, and prevention of gender-based violence; and exercises.

EAST AFRICA

In 1991, the United States closed the Embassy in Somalia as the country descended into rampant violence and insecurity. Al-Shabaab and al-Qaida eventually filled the security vacuum and, with Mogadishu firmly under their control, used this safe haven to plan and launch terror attacks not only inside Somalia, but also regionally throughout East Africa. Since al-Shabaab's first external attack in 2010, the group has killed hundreds through external operations, with the most lethal attacks occurring in Kenya and Uganda. Somali pirates have also disrupted commercial shipping lanes, reaching as far north as the Arabian Sea and as far south as Tanzania, while attacking and hijacking sea vessels for ransom.

By 2007, AMISOM was activated in Somalia, with Burundi, Djibouti, Ethiopia, Kenya, and Uganda contributing troops and conducting military operations, which eventually led to the return of the capital city to a newly formed Somali federal government. Today, a U.S. Ambassador is permanently located in Mogadishu and, along with the USAID Mission Director, is working with the Federal Government of Somalia to improve the security environment and promote stability. As such, U.S. military operations and activities are part of a whole-of-government approach working in support of diplomatic and development efforts.

Somalia remains key to the security environment of East Africa, and its long-term stability is important to advancing U.S. interests in the region. When assessing Somalia, it is important to understand incremental progress has been made over the last decade as the result of a truly international effort inside the country. The U.S. works closely with our international partners, which include the United Nations, European Union, African Union, AMISOM and the troop contributing countries, the United Kingdom, Turkey, and others, on security sector development efforts. Together, we remain committed to Somali-led progress on improving conditions for a well-trained Somali National Security Forces that can assume and sustain security within the country.

The U.S. also continues to target al-Shabaab and ISIS-Somalia. U.S. military activities in Somalia include remote or accompanied advise and assist missions, the building, training, and equipping of Somali combat units, and when necessary, kinetic action. The effects of our kinetic activities serve to disperse al-Shabaab and ISIS-Somalia leadership, disrupt how they communicate, and further decentralize how they conduct operations. Ultimately, our kinetic activities, encouraged and supported by the Federal Government of Somalia, create opportunities for governance to take hold.

Our actions are synchronized with AMISOM's mandate to reduce threats and support stabilization, reconciliation, and peacebuilding. We are supporting the AMISOM transition plan, which envisions conditions for an effective, responsible, and gradual handover of security responsibilities from AMISOM by 2021. Recent efforts by Somali security forces, working with AMISOM, to stabilize the area in and around Merka, is a positive step. However, the Federal Government of Somalia must continue to demonstrate sustained progress in implementing the federated security model, within its national security architecture, and increase coordination and cooperation with the Federal Member States.

The U.S. brings leadership and influence to Somalia, led by the U.S. Ambassador, to synchronize and support the international community's ongoing security and stability efforts. While U.S. military training and operations alone cannot defeat al-Shabaab and ISIS-Somalia, alongside U.S. diplomatic and development efforts, they provide legitimacy to the Federal Government of Somalia and create opportunity for political and economic growth, and security and stability in the broader region.

U.S. Africa Command's security cooperation is closely linked with the U.S. Mission to Somalia's political and economic initiatives targeting the root cause of instability. The Department of State and USAID provide effective tools to build and reinforce stabilization, democratic institution building, education, and health development programs. Somalia has held a credible federal presidential selection process, and political leaders have formed four Federal Member States and selected regional presidents and parliaments. While Somalia remains a fragile state, the gross domestic product has moderately increased over the past two years and, combined with other positive economic indicators, has the potential to lead to debt relief and additional international financing and investments.

While there have been signs of improvement in Somalia, progress is not irreversible and sustained international engagement will be necessary to keep the country on a positive trajectory.

The U.S., by virtue of our capabilities, influence, and credibility, is uniquely postured to support Somali efforts, including to help coordinate other international partner engagement. As such, the Federal Government of Somalia must now take advantage of the opportunities before them, with a clear understanding future assistance will depend on demonstrated progress.

In Djibouti, the U.S. remains a steadfast partner. In May 2018, members of the Djiboutian Army's first ever Rapid Intervention Battalion graduated from training. The Texas National Guard, assigned to Combined Joint Task Force-Horn of Africa, provided the Rapid Intervention Battalion with comprehensive individual and collective training in support of the unit's mission as a multi-purpose reaction force responsible to the leadership of the Djiboutian Army.

However, Djibouti's increasing partnership with China across defense, trade, and financial sectors encroaches on and, at times, diminishes U.S. access and influence. In 2018, Djibouti nationalized the Doraleh Container Port. Despite the increased presence of China within the port complex, Djibouti has retained control of the container port, increasing shipping volume and through-put since removing Dubai Ports World. Our continued access and unimpeded usage to this facility is critical to our logistical efforts in East Africa.

Additionally, China's first overseas naval base in Djibouti, only a few miles from Camp Lemonnier, creates air space and coordination challenges for all international partners. U.S. Africa Command considers access to Djibouti and to critical global shipping lanes through the Bab-el-Mandeb strait an imperative to ensure U.S. strategic interests are not compromised. We work closely with the U.S. Ambassador to Djibouti and his initiative to coordinate with the host nation, the Chinese, and other countries based in Djibouti to de-conflict operations, ensure the safety of forces, and maintain appropriate access for our military activities.

In Ethiopia last April, Abiy Ahmed Ali became Prime Minister, and his commitment to political reform, human rights, and unity has been a positive contribution to peace and stability in the region. By June, Abiy's government made significant progress implementing the 2000 Algiers Accord to end the war with its neighbor, Eritrea. Since then, both countries have taken numerous positive actions to conclude Africa's longest running border conflict. Commercial flights between the capitals of Addis Adaba and Asmara now occur daily, Ethiopian commercial vessels operate through Eritrean ports, communication channels are open between the populations reuniting families and friends, and military forces are withdrawing from contested territory.

Prime Minister Abiy's reform agenda represents an unprecedented attempt to comprehensively reset Ethiopian governance. The Government of Ethiopia is working with various ethnic factions inside the country to address root causes of conflict and expand the political discourse. Prime Minister Abiy restructured his cabinet, establishing a Ministry of Peace and appointed women to 50 percent of the positions, to include the Minister of Defense, a first for Ethiopia.

In partnership with the Government of Ethiopia and in support of our diplomatic mission, U.S. Africa Command is developing additional support options to improve security cooperation with this key partner. Ethiopia is already benefiting from security cooperation programs, including intelligence sharing initiatives, and we will identify avenues to enroll more personnel in U.S. military education and training programs. In July 2019, Ethiopia will host U.S. Africa Command Exercise Justified Accord in order to enhance AMISOM's Troop Contributing Countries' ability to conduct peace operations. Ethiopia is the largest contributor of United Nations peacekeeping forces and provides approximately 4,200 troops to AMISOM.

U.S. Africa Command will seek to expand our military-to-military relationship in support of Prime Minister Abiy's fast-paced internal reform efforts and regional outreach.

NORTH AFRICA

Since 2011, with the overthrow of Libyan dictator Muhammar Qaddafi and the rise of the Arab Spring, Libya has been in a constant state of turmoil. In 2014, Libyan militants began pledging allegiance to the Islamic State and its cause. By 2015, the Islamic State had infiltrated the coastal city of Sirte, shifted aspirations of the militia members there, and declared it a part of the caliphate. Soon militants from outside Libya joined the organization, now branded as ISIS-Libya, and their numbers swelled into the thousands.

In 2016, the Libyan Government of National Accord requested assistance from the U.S. and our European allies to rid the country of ISIS-Libya. Together, we assisted Libyan forces aligned to the Government of National Accord and conducted hundreds of kinetic strikes in support of its ground operations in Sirte. Within months, Sirte was liberated. Since then, the U.S. has remained engaged in the international efforts to stabilize Libya.

U.S. Africa Command focuses on three objectives for Libya. First, U.S. Africa Command assists in degrading terrorist groups, such as AQIM and ISIS-Libya, who pose threats to U.S. and Western interests and destabilize Libya and its neighbors. Second, every effort is made to prevent widespread civil conflict that would threaten security and stability. Finally, U.S. Africa Command supports the political reconciliation process by providing security to facilitate diplomatic engagements in Libya.

U.S. Africa Command continues to support the U.S. Libya External Office's diplomatic efforts to promote the United Nations-facilitated Libyan political reconciliation process. The recent return of a former Ambassador to Libya as the Chargé d'Affaires of the Libya External

Office offers a seasoned diplomat, who is familiar with the multi-layered problem set. The U.S. is now better positioned to manage the diplomatic and counterterrorism strategy. In 2018, U.S. Africa Command conducted kinetic strikes targeting the leadership and operational commanders of both ISIS-Libya and AQIM providing the opportunity for the Libyan Government of National Accord to continue its efforts to improve security and work towards political reconciliation.

Tunisia is one of our most capable and willing partners. In May 2018, U.S. Marine Corps Forces Africa conducted Exercise African Lion in Tunisia and Morocco. This annual, multinational exercise enabled U.S. forces and our African partners to increase interoperability and further refine tactics, techniques, and procedures for countering VEOs.

Furthermore, U.S. Africa Command-managed security cooperation programs work to develop Tunisian counterterrorism and border security capabilities. Through Fiscal Years 2017 to 2019, over $165 million in Title 10 and Title 22 funding will be invested in developing maritime and rotary-wing capabilities to bolster Tunisian border control forces. Tunisia is also developing its counter-IED awareness program through training provided by U.S. Army Africa and sponsored by the Defense Threat Reduction Agency. With this state-of-the-art training, Tunisian special operations forces will be better trained and equipped to counter IED attacks.

Tunisia is also capable of managing more advanced logistics training and maintaining increasingly complex intelligence, reconnaissance, and surveillance assets. For example, U.S. Air Forces Africa completed proof-of-principle flights with the Tunisian Air Force as part of an initiative to leverage their transport capability for rapid mobility requirements across the theater. Continued flights over time will serve as an opportunity to enhance the capability of the Tunisian Air Force, while reducing the stress on U.S. airlift assets and personnel. Tunisia remains a political and military leader in the region and a net exporter of security.

The Kingdom of Morocco remains a vital U.S. security partner and ranks in the top five of African countries providing peacekeepers to UN missions in Africa. Additionally, Morocco is a key exercise integrator serving as the permanent host of Exercise African Lion which focuses on counter-VEO, interoperability, and strengthening regional relationships. In 2019, Morocco will also host Exercise Phoenix Express, the premier U.S. Naval Forces Africa exercise emphasizing maritime security and counter-illicit trafficking.

Algeria is a capable partner in the fight against extremism. With the largest army in Africa, Algeria conducts frequent military-to-military engagements to build its border protection and counterterrorism forces. U.S. relations with Algeria continue to foster cooperation and further regional stability.

SAHEL AND LAKE CHAD REGIONS

Within the Sahel region of northern and western Africa, dangerous pockets of extremists control numerous under-governed spaces. The African-led, French-assisted, and U.S.-supported G5 Sahel Joint Force, comprised of forces from Burkina Faso, Chad, Mali, Mauritania, and Niger, is a successful example of burden sharing. The U.S. is providing bilateral security assistance for the countries of the G5 Sahel Joint Force, and U.S. Africa Command contributes operational planning support to compliment the funding and operational assistance provided by our European allies to the G5 Sahel Joint Force. U.S. Africa Command remains committed to assisting the African-led operations to degrade VEOs and to build the defense capabilities within the G5 Sahel Joint Force and, in turn, build the capabilities of individual countries within the joint force.

Mali remains the epicenter of instability and a haven for many terror groups to stage and launch attacks across the region. The United Nations Mission in Mali continues to support the stabilization of the country and implementation of the Algiers Accord for Peace and Reconciliation in Mali. Burkina Faso, Chad, Guinea, Niger, Senegal, and Togo are the leading African nations contributing to United Nations Mission in Mali, which has more than 11,000 military personnel. Our European allies provide military education, advice, and training to the Malian Armed Forces through the European Training Mission-Mali. This mission has trained over 12,000 personnel in an effort to strengthen the Malian Armed Forces to defend its territory and protect its people.

U.S. Africa Command lends critical support to partner counterterrorism efforts in the Sahel. This primarily takes the form of providing key enabling capabilities to the French and members of the G5 Sahel Joint Force. Furthermore, we continue to build military operational and defense institutional capabilities through measured security cooperation coordinated with other U.S. government agencies' diplomacy and development efforts. Through these actions, we complement the international effort to maintain persistent pressure on terror networks and increase security and stability in Mali.

In Burkina Faso, U.S. Africa Command finds a willing and capable partner in West Africa. With almost $40 million in U.S. Title 10 expenditures, the Burkinabe armed forces remain dependable exporters of security with trained security forces capable of contributing to the G5 Sahel Joint Force. Despite manpower and equipment challenges, the Burkinabe security forces continue to conduct counterterrorism operations in both the North and Eastern regions.

In Niger, serious governance and development issues are exacerbated by rapid population growth, environmental degradation, economic stagnation, and stressed infrastructure. Moreover, regional VEOs, such as ISIS-Greater Sahara, JNIM, Boko Haram, and ISIS-West Africa, overlap within Niger. As such, our policy goals aim to assist Niger's continued development as a stable democracy with accountable governance, become an increasingly capable partner against regional threats, and achieve social and institutional development and broad-based economic growth, which will further strengthen the population against VEO recruitment efforts. In spite of these challenges, Niger is an increasingly capable regional partner.

Over a three year period, U.S. Africa Command-managed Title 10 support has increased Nigerien counter-IED capability, as well as intelligence, surveillance, and reconnaissance asset sustainment, maintenance, and operations. This includes the Government of Niger-requested development of an expeditionary, contingency support location in Agadez, scheduled to be initially operationally capable in the summer of 2019.

In April 2018, Niger hosted Exercise Flintlock, the annual U.S. Special Operations Command-Africa exercise to develop capacity and interoperability among African, allied, and U.S. forces. Exercise Flintlock was entirely facilitated by the special operations force units of more than 20 African nations with the support of western nations. This successful multilateral event enhances coordination among partners and improves special operations force capabilities to combat violent extremist organizations.

Within the Lake Chad Region, the Multinational Joint Task Force comprises forces from Benin, Cameroon, Chad, Niger, and Nigeria, and remains a strategically significant organization in the efforts to counter Boko Haram and ISIS-West Africa. Boko Haram and ISIS-West Africa attack military and civilian targets throughout Northeast Nigeria and the Lake Chad Border areas of Niger, Chad and Cameroon, thus dominating large swaths of territory and displacing millions from their homes, contributing to a multi-border displaced persons crisis. U.S. Africa Command and USAID work with the Multinational Joint Task Force to deliver humanitarian support and facilitate international relief efforts to bring basic health care, clean drinking water, adequate sanitation, and food supplies to the hardest hit areas. However, the persistent violence and the growing number of displaced persons impact the ability for organizations to deliver the required assistance.

Nigeria has faced multiple setbacks in the volatile Northeast Borno State as ISIS-West Africa has seized military bases and materiel, including armored vehicles, weapons, and ammunition. This series of ISIS-West Africa high-profile attacks has placed tremendous strain on the Nigerian military's readiness and capabilities. The attacks also underscore the need for the contributing countries to the Multinational Joint Task Force to increase their commitments, resources, troop deployments, and regional operational coordination to counter ISIS-West Africa's momentum.

Nigeria also faces instability over the violent herder-farmer conflicts in the middle belt region, as these groups fight over the scarcity of resources and usable land required to feed the growing and, often due to conflict, displaced and transient population. By 2050, Nigeria will overtake the U.S. as the third most populous country in the world, further compounding the strain on natural resources and risking the disenfranchisement of a population increasingly dissatisfied by the lack of security and basic services.

U.S. Africa Command is working to assist the Nigerian military through a variety of security cooperation efforts. In April 2018, forty African senior military leaders represented their countries at the sixth annual African Land Forces Summit in Abuja, Nigeria. Co-hosted by the Nigerian Army and U.S. Army Africa, the African Land Forces Summit provided a forum to develop cooperative solutions for improved trans-regional security and stability.

Over the past year, we have expanded our intelligence support and are currently working with the Nigerian Air Force to increase their effectiveness in line with international standards. In the upcoming years, utilizing Title 10 and Title 22 funding, U.S. Africa Command will execute tailored programs to expand Nigerian intelligence, surveillance, and reconnaissance; intelligence; counter-IED; and air-ground integration capabilities. U.S. Africa Command will continue to work with Nigeria and seek additional partnership opportunities following Nigeria's planned presidential election in early 2019.

Cameroon has been the focus of long-term U.S. Department of State, U.S. Department of Defense, and U.S. Africa Command security cooperation efforts to boost the country's capacity to counter Boko Haram and ISIS-West Africa in the Lake Chad region. Cameroon has been an effective partner within the Multinational Joint Task Force. Cameroon also ensures security in the Gulf of Guinea and in neighboring Central African Republic, where it plays a valuable role in the UN Multidimensional Integrated Stabilization Mission in the Central African Republic.

The U.S. has urged the Cameroonian government to address human rights concerns, investigate allegations thoroughly, hold accountable perpetrators of abuse, and disclose the outcome of its investigations to the people of Cameroon. In accordance with the Leahy law, the U.S. government does not provide assistance to security force units or individuals against whom credible allegations of gross violations of human rights have been lodged.

The crisis and credible allegations of gross violations of human rights in the Anglophone Northwest and Southwest regions of Cameroon is a concern. The violence stem from a long-term sense of marginalization and political disenfranchisement among Anglophone Cameroonians, compounded by government suppression of moderates, and the government and separatists inability to enter into any constructive dialogue to resolve the conflict. The

Government of Cameroon has assured the U.S. no security assistance will be diverted from counter-Boko Haram and ISIS-WA efforts to the Anglophone regions.

GULF OF GUINEA AND CENTRAL AFRICA

In the Gulf of Guinea, maritime security remains crackdown a strategic priority due to its role in global oil markets, trade routes, and the residence of approximately 75,000 U.S. citizens. Piracy and other illicit maritime activities threaten development efforts, weaken state security, and rob states of precious resources required for greater economic growth and effective governance. In 2018, piracy incidents trended lower as cooperation increased among the Gulf of Guinea partners.

For example, last summer, U.S. Naval Forces Africa conducted Operation Junction Rain as part of the African Maritime Law Enforcement Partnership Program. Under this framework, U.S. Coast Guard law enforcement personnel partnered with Cabo Verdeans and Senegalese on board their naval vessels countering illicit trade and criminal activities. Capacity building remains paramount to continue the downward trend in piracy and address the growing threat of illicit trafficking of drugs, arms, and persons in the region.

In Central Africa, the most visible nontraditional threat this past year was an Ebola outbreak in an unstable region in eastern Democratic Republic of the Congo. The outbreak, which began in August 2018, is presently the second most lethal in history. Furthermore, the medical response has been hampered by armed conflict in the region.

External actors in Central Africa, such as Russia, have also undermined security and countered U.S. interests. For example, in the Central African Republic, Russia has bolstered its influence with increased military cooperation including donations of arms, with which it has gained access to markets and mineral extraction rights. With minimal investment, Russia leverages private military contractors, such as the Wagner Group, and in return receive political and economic influence beneficial to them.

Recently, the President of the Central African Republic installed a Russian civilian as his National Security Advisor. The President also promised the armed forces would be deployed nationwide to return peace to the country by forces likely trained, equipped, and in some cases, accompanied by Russian military contractors. Russia's ability to import harsh security practices, in a region already marred by threats to security, while systematically extracting minerals, is concerning. As Russia potentially looks to export their security model regionally, other African leaders facing similar instability and unrest could find the model attractive.

SOUTHERN AFRICA

In comparison to a large portion of Africa, many countries in Southern Africa have suffered fewer consequences from terrorism and violent conflict. However, it still struggles with economic, societal, governance, and environmental challenges, including poverty, crime, social inequality, corruption, and lack of water and is influenced by China's growing presence in the region. The majority of U.S. Africa Command's engagements with Southern Africa aim to strengthen partnerships and build partner capacity for peacekeeping and crisis response, including infectious disease outbreaks.

We work closely with our diplomatic and development partners to support and complement their efforts across Southern Africa. For example, the largest exporters of security in the region are Zambia, Malawi, and South Africa. Our primary investment in these countries is through Title 22, through such programs as the International Military Education and Training program and Global Peace Operations Initiative, which are designed to improve interoperability and develop long-term, sustainable peacekeeping capability and capacity.

Finally, in addition to our Title 22 commitments, the South Africa-New York State Partnership Program is the oldest on the continent and offers the most meaningful U.S. military-to-military engagements in South Africa. In 2018, South Africa hosted Africa's largest air show, the Aerospace and Defense Exposition, and the New York Air National Guard supported with two cargo airplanes, an unmanned aerial vehicle system, and 38 soldiers and airmen. Such engagements offer a low-cost solution to improve U.S. partnerships, particularly in a relatively accessible and neutral ground where our competitors seek influence in both the military and economic spheres.

ENSURING STRATEGIC ACCESS

Our efforts to ensure strategic access must also be viewed through the lens of competitor influence and coercive activities, which seek to gain advantages over the U.S. by moving faster in economic and security markets where we are constrained by our values and law. China is a strategic competitor which uses economic and security outreach to foster investment incentives, jobs, and infrastructure growth in return for access to Africa's strategic locations, natural resources, and markets. China has most successfully employed this model in Djibouti, holding 80 percent of the Government of Djibouti's debt, where access through the Bab-el-Mandeb Strait, the Red Sea, and the Suez Canal remains a U.S. strategic imperative.

Today, on the African side of the Red Sea and in the Bab-el-Mandeb strait, which encompasses Somalia, Djibouti, Eritrea, Sudan, and Egypt, the Great Powers and the Gulf States both cooperate and compete for real estate and port facilities.

Along Somalia's northern coast, the semi-autonomous region of Somaliland is working with Dubai Ports World on developing its Gulf of Aden port city of Berbera. When development is complete, Berbera's location, close to the entry and exit point of the Bab-el-Mandeb strait, will be strategically valuable for both Somaliland and with whomever they choose to partner.

Djibouti, a nation about the size of New Jersey, remains congested with a preponderance of foreign forces from the U.S., France, Germany, Japan, and China maintaining bases and competing for access and airspace. Currently, the Djiboutians operate the Doraleh Port facility, through which passes 90 percent of all logistics and materiel for U.S. operations in East Africa. Continued access to the Doraleh Port Facility remains a U.S. strategic imperative.

Just north of Djibouti, other geopolitical developments have had ramifications on the future of the Red Sea. With the normalization of relations between Ethiopia and Eritrea and the United Nations Security Council lifting sanctions on Eritrea, other nations will undoubtedly look to Eritrea to unlock its coastline for Red Sea port access.

Given its strategic location, coupled with its already developed infrastructure, Sudan is also looking to develop its Red Sea coast. In fact, Sudan recently entered into an agreement to allow Russia to explore natural gas fields off Port Sudan.

Along with U.S. Central Command, the strategic evolution of the Red Sea remains a command priority, as we consider how Red Sea access can be maintained and expanded on the continent. It is imperative for the U.S. to not only maintain our status as the preferred security partner of choice, but also look to diversify our strategic access to the Red Sea.

In 2018, U.S. Naval Forces Africa continued its annual exercise series, which consisted of Exercises Phoenix Express, Cutlass Express, and Obangame Express. These exercises aim to build the maritime capabilities of African partner nations, and Exercise Obangame Express this past year included participation from the Somali Maritime Police. Their participation marked the first time in nearly 30 years Somalia has participated in a security event outside its borders.

U.S. Africa Command seeks to build partner networks and assist in establishing the security environment required for economic opportunity and trade to flourish. Through a whole-of-government approach, enhanced security fosters development and investment with initiatives such as The Better Utilization of Investments Leading to Development (BUILD) Act. The BUILD Act facilitates private-sector investments and institutional engagements with low and lower-middle income countries. It also opens the door for U.S. companies to compete overseas and respond to China's increased economic engagement in Africa, most notably the $60 billion, largely in loans with some security and development funding, recently promised during the 2018 Forum on China-Africa Cooperation.

Additionally, the Millennium Challenge Corporation, established by the U.S. Congress in 2004 to apply a new philosophy toward foreign aid, works with partner nations to promote growth in agriculture and irrigation, power and energy, and transportation infrastructure. In November 2018, the Millennium Challenge Corporation provided a $550 million investment into the Senegal Power Compact to increase electricity access and reliability for one of Africa's fastest growing economies.

The U.S. Institute for Peace (USIP) delivers skills training, education, grants, and research through local and international partnerships. USIP also serves as a conduit for various non-governmental organizations to interface with the broader diplomatic and development stakeholders in Africa. During 2019, USIP and U.S. Africa Command will host a symposium to discuss how non-governmental organizations can support and, when appropriate, integrate into the U.S. whole-of-government approach.

U.S. Africa Command's component commands engage every day on the continent to enhance partner capability, where an important aspect of maintaining relationships is continued engagement between senior leaders. In 2018, senior leaders from U.S. Africa Command and its components conducted numerous key leader engagements, including visits to Cabo Verde, Djibouti, Ethiopia, Ghana, Kenya, Liberia, Libya, Malawi, Mali, Niger, Senegal, Somalia, and Uganda.

U.S.-facilitated exercises and conferences offer the best return on investment for our security assistance efforts and provide our African partners with access to American values, expertise, and professionalism. In October 2018, senior military leaders from 28 African air forces and U.S. Air Forces Africa met in Morocco for the African Air Chiefs Symposium. This annual symposium provides a forum to discuss common defense issues, increase cooperation, and improve command and control of air operations.

Throughout 2018, U.S. Army Africa continued its annual exercise series, which included Exercise Unified Focus in Cameroon, Exercise Justified Accord in Uganda, Exercise United Accord in Ghana, and Exercise Shared Accord in Rwanda. These exercises provided integrated training opportunities, with a focus on respecting the rule of law and human rights, integrating women into peacekeeping operations, and responding to allegations of abuse.

Finally, in October 2018, led by the Command Senior Enlisted Leader, U.S. Africa Command hosted its second annual African Senior Enlisted Leader Conference with over 50 Africa enlisted leaders from 25 countries. African enlisted leaders engaged with senior US and NATO enlisted leaders on professional development, civilian control of the military, respect for human rights, and caring for Soldiers and their families. The conference advanced key professionalism concepts and training opportunities vital to sustaining African security and peacekeeping forces.

CONCLUSION

In summary, U.S. Africa Command remains poised to meet Africa's current and future challenges. The men and women of the command, our partners on the continent, and our collection of stakeholders understand how important Africa is to the global economy and security environments. The National Defense Strategy and its supporting foundational documents have outlined the importance of long-term Great Power Competition with China and Russia and the need to limit the harmful influence of non-African powers on the continent.

As the U.S. Africa Command Campaign Plan guides the command into the next decade, our partner-centric approach remains central to advancing U.S. interests in Africa. Much work remains, as U.S. Africa Command continues to contribute to the broad-reaching Diplomacy, Development, and Defense approach for further economic growth and prosperity in Africa.

Finally, it remains an honor to lead the Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, civilians, contractors, and families of U.S. Africa Command. Together, their efforts have made the U.S. safer and kept Africa on the road towards prosperity.

Djibouti

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Ambassador Larry Edward André

Ambassador Larry André, a career member of the Senior Foreign Service, class of Minister-Counselor, was appointed by President Trump as the United States Ambassador to the Republic of Djibouti on November 20, 2017.

He served as Ambassador to Mauritania from 2014-2017. He also served overseas as Deputy Chief of Mission at U.S. Embassy Dar es Salaam, Tanzania; Political Counselor at U.S. Embassy Nairobi, Kenya; Deputy Chief of Mission at U.S. Embassy Freetown, Sierra Leone; Regional Environment Officer for East Africa covering 14 countries from Addis Ababa, Ethiopia; and as Management Officer at U.S. Embassy Conakry, Guinea. He also served at U.S. Missions to Iraq, Bangladesh, Cameroon and Nigeria.

He served domestically as the Director of the Office of the Special Envoy for Sudan and South Sudan, Deputy Director of the African Affairs Bureau's Executive Office, and as the Deputy Director of the Office of West African Affairs.

Prior to joining the Foreign Service, Mr. André worked in Chad on a refugee resettlement project and served as a Peace Corps Volunteer in Senegal.

He holds an M.B.A. from Arizona State University (1988) and a B.A. in Political Science from Claremont McKenna College (1983). Mr. André speaks French. He is married to Ouroukou Younoussi André and has one daughter, Ruhiyyih Rahman André.

← DJIBOUTI

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U.S. Relations With Djibouti

BILATERAL RELATIONS FACT SHEET

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More information about Djibouti is available on the Djibouti Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-DJIBOUTI RELATIONS

The United States established consular representation in the former colony of French Somaliland in 1929. Formal diplomatic relations between the United States and Republic of Djibouti began in 1977, following independence from France. Djibouti is a republic with a parliament and executive branch led by the President, who is elected every five years. The National Assembly is the country's legislature, consisting of 65 members, also elected every five years.

Djibouti is strategically located in the Horn of Africa and is a key U.S. partner on security, regional stability, and humanitarian efforts across the region. The Djiboutian government is supportive of U.S. interests. Djibouti hosts the only enduring U.S. military presence in Africa at Camp Lemonnier, established by formal agreement in 2003. A bilateral agreement with the

Government of Djibouti also provides the United States with access to Djibouti's port facilities and airport.

U.S. Assistance to Djibouti

The U.S. Agency for International Development's (USAID) Food for Peace program maintains a warehouse for pre-positioned food assistance commodities in Djibouti, serving as a hub for rapid response in parts of Africa and Asia. International Broadcasting Bureau facilities in Djibouti transmit Arabic-language programming, and Voice of America Somali Service broadcasts to the Horn and the Arabian Peninsula.

Djibouti's economic growth is hindered by a rapidly expanding workforce that is poorly matched to the economic needs of the country, resulting in high unemployment, and a lack of qualified applicants for jobs in certain sectors. Other obstacles to growth include high electricity costs, chronic water shortages, poor health indicators, food insecurity, and governance challenges. U.S. assistance supports education, health, workforce development, renewable energy, and civil society development.

U.S. assistance supports Ministry of Education efforts to improve the quality of primary schooling across the country. Education assistance supports training teachers, improving primary level reading, and increasing access to education, especially for girls.

U.S. health assistance focuses on HIV/AIDS prevention among key populations in Djibouti City, and along migratory paths and critical cross-border trade routes.

One of the key goals shared by the Governments of Djibouti and the United States is to increase employment in the Djiboutian workforce. The United States is focused on improving the quality of vocational workforce readiness programs, facilitating sustainable ties between vocational education centers and employment providers, and strengthening job placement and retention services.

The U.S. Embassy works closely with Djiboutian civil society organizations (CSOs) to improve their capacity to engage with the Government of Djibouti in order to deliver essential services to citizens. A key component of this assistance includes support to the management, financing, and operations of CSOs to improve their sustainability and impact.

Educational and cultural exchange programs cement people-to-people ties between the United States and Djibouti. Through the Young African Leaders Initiative (YALI), the International Visitors Leadership Program, the Fulbright Program, and English language programs, Djiboutian leaders and American experts are exchanging ideas and expertise on issues of mutual interest and developing leadership and skills training.

Under the Power Africa initiative, U.S. assistance focuses on improving the environment for private sector investment in renewable and traditional power generation, including specialized support to geothermal development.

Assistance through the Food for Peace program also responds to ongoing food insecurity concerns in rural Djibouti exacerbated each year by drought and climate change. The United Nations World Food Program is the United States' largest food security partner in Djibouti, distributing approximately $4 million in food assistance and other services each year.

Bilateral Economic Relations

Djibouti is eligible for preferential trade benefits under the African Growth and Opportunity Act (AGOA). Djibouti hosts modern port facilities, which enable the growth of the logistics and services sector. Before 2035, Djibouti is expected to finish several major infrastructure projects including: a natural gas pipeline, a liquefaction plant, an export terminal, a geothermal plant, another multipurpose port, renewable energy projects, and what will be Africa's largest free trade zone, the Djibouti International Free Trade Zone. A new railroad connecting Djibouti City and Addis Ababa, Ethiopia began operations in early 2018. These projects are part of the Government of Djibouti's ambitious plan to turn Djibouti into a major commercial and shipping hub for East Africa. U.S. exports to Djibouti include vegetable oil, wheat, machinery, and foodstuffs. U.S. imports typically transit Djibouti from origin countries farther inland such as Ethiopia. These imports include coffee, vegetables, perfumery, and cosmetics. Landlocked Ethiopia exports nearly 90 percent of its goods through Djibouti's ports. The United States has signed a trade and investment framework agreement with the Common Market for Eastern and Southern Africa, of which Djibouti is a member.

Djibouti's Membership in International Organizations

Djibouti is a member of the United Nations, International Monetary Fund, World Bank, World Trade Organization, Organization of Islamic Cooperation (OIC), Arab League, and Intergovernmental Authority on Development (IGAD), among other organizations.

Bilateral Representation

The current U.S. Ambassador to Djibouti is Larry André, Jr., presented his credentials to the President of Djibouti on February 19, 2018. Ambassador Andre is also the U.S. diplomatic representative to IGAD, which is headquartered in Djibouti. Other principal embassy officials are listed in the Department's Key Officers List.

Djibouti maintains an embassy in the United States at Suite 515, 1156 15th Street, NW, Washington, DC 20005, (tel. 202-331-0270).

More information about Djibouti is available from the Department of State and other sources, some of which are listed here:

CIA World Factbook Djibouti Page
U.S. Embassy
USAID Djibouti Page
History of U.S. Relations With Djibouti
Office of the U.S. Trade Representative Country Page
U.S. Census Bureau Foreign Trade Statistics
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Country Report

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l’Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Djibouti

Summary

Economic structure

Outlook for 2020-21

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Sreya Ram**
Forecast Closing Date: **October 26, 2019**

Political and economic outlook

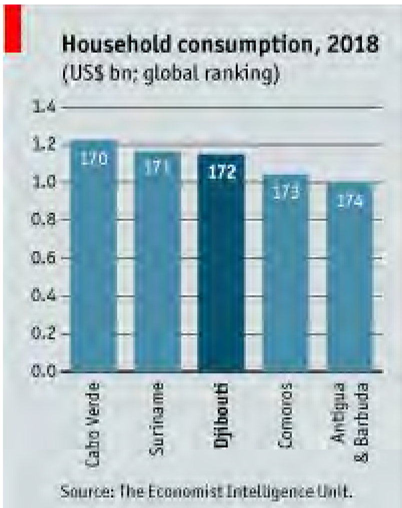
- The president, Ismaël Omar Guelleh, has been tightening his grip on power for almost 20 years and will not face any serious threats to his position. There are areas of unrest across the country, but Djibouti is well positioned to contain any widespread instability.
- The government will seek to attract more foreign direct investment (FDI) in infrastructure projects, but it will struggle to do this as investors will be wary of the reliability of contracts after DP World was stripped of its contract to run one of Djibouti's ports.
- As public fixed investment falls and the dividends from past projects materialise, The Economist Intelligence Unit expects the fiscal deficit to narrow, from an estimated 2.7% of GDP in 2019 to 1.5% of GDP in 2021.
- Although capital investment will fall from recent highs as major infrastructure projects reach completion, it will still remain large as a result of a new re-export facility and the free trade zone (FTZ). Real GDP growth will average 6.6% in 2020-21.
- Inflation will average 3.4% in 2020-21, driven by higher domestic food prices. A weaker US dollar in 2021 vis-à-vis Djibouti's other major trading partners and higher global food prices will keep inflation high in 2020-21 (the Djibouti franc is pegged to the dollar).
- Higher global food prices in 2020-21 will keep the goods import bill large, but this will be offset by higher service export earnings. The current-account deficit will shrink, from an estimated 8.9% of GDP in 2019 to 3.7% in 2021.

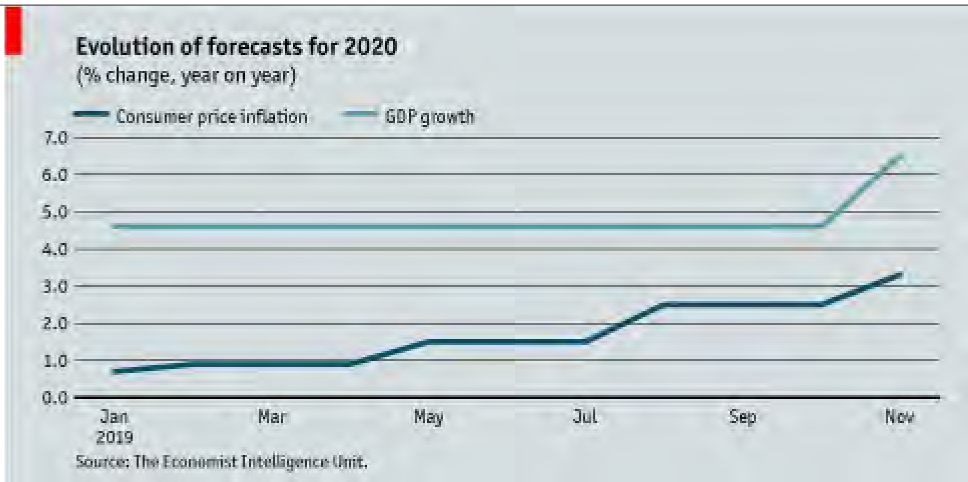
Key indicators

	2018[a]	2019[b]	2020[c]	2021[c]
Real GDP growth (%)	6.0	6.7	6.5	6.7
Consumer price inflation (av; %)	0.1	3.2	3.3	3.5
Government balance (% of GDP)	-3.0	-2.7	-2.1	-1.5
Current-account balance (% of GDP)	-9.8[b]	-8.9	-5.4	-3.7
Exchange rate Dfr:US$ (av)	177.7	177.7	177.7	177.7

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Market opportunities





Key changes since July 23rd

- In line with the uptick in domestic inflation in recent months, which reached 3.1% in August, we have revised up our estimates for 2019. We now estimate that inflation will average 3.2% in 2019, compared to 2.2% previously.
- We have also revised up our inflation forecast for 2020 following revisions to global food and oil prices. We now expect inflation to average 3.3% in 2020 (from 2.5% previously) and 3.5% in 2021.
- The latest information available from the IMF Article IV report shows a stronger-than-expected growth in external trade, supported by infrastructure development. We have, in turn, revised up our 2019 growth estimates to 6.7% from 5.5% previously.
- We have also revised up our real GDP growth forecasts for 2020 to 6.5% (from 5% before) to show the positive impact of infrastructure development, particularly the free trade zone (FTZ), and steady growth in Ethiopia's external sector on Djibouti's exports.

The quarter ahead

- **TBC—Inflation fourth quarter:** We expect inflationary pressures to remain high in the remainder of the year as a result of rising domestic food prices. Owing to a low base in 2018, when inflation averaged 0.1% annually, and a spike in food prices, inflation will rise in 2019 to an annual average of 3.2% and further to 3.3% in 2020.

Basic data

Land area

23,200 sq km

Population

960,000 (2017, IMF)

Main towns

Population, 2017 ('000; World Gazetteer estimates)

Djibouti City (capital): 624

Ali Sabieh: 40

Danan: 40

Tadjoura: 22

Obock: 17

Climate

Hot and dry

Weather

Hottest months, June-August, 31-41°C; coldest month, January, 23-29°C; driest month, June, 1 mm average rainfall; wettest month, March, 25 mm average rainfall

Languages

French and Arabic are official languages; Somali and Afar are widely spoken

Measures

Metric system

Currency

Djibouti franc (Dfr) = 100 centimes; since 1973 the Djibouti franc has been pegged to the US dollar at Dfr177.7:US$1

Time

3 hours ahead of GMT

Public holidays

New Year's Day (January 1st); Labour Day (May 1st); Independence Day (June 27th); Christmas Day (December 25th); all Islamic holidays are observed in accordance with the lunar calendar; this means that the following dates are approximate: Ascension of the Prophet (April 3rd 2019); Eid al-Fitr (end of Ramadan, June 4th 2019); Eid al-Adha (Feast of the Sacrifice, August 11th 2019); Islamic New Year (August 31st 2019); Prophet's birthday (November 9th 2019)

Political structure

Official name

République de Djibouti

Form of state

Unitary republic

Legal system

Based on the Napoleonic Code; a referendum in September 1992 endorsed a new constitution; the presidential term limit was removed in April 2010, and term lengths were reduced from six to five years

National legislature

National Assembly; 65 members of parliament, elected by universal suffrage, serve a five-year term

National elections

April 2016 (presidential) and February 2018 (legislative); next presidential election due in April 2021

Head of state

President, elected by universal suffrage; serves a term of five years

National government

The president and his appointed Council of Ministers

Main political parties

The National Assembly is dominated by the Union pour la majorité présidentielle (UMP), a coalition that is dominated by the president's Rassemblement populaire pour le progrès (RPP), formerly the only legal political party. The UMP also contains the Front pour la restauration de l'unité et de la démocratie (FRUD), the Parti populaire social démocrate (PPSD) and the Union des partisans de la réforme (UPR). The Parti nationale démocratique (PND) left the UMP to join the opposition in 2011. A coalition of opposition parties, the Union pour le salut national (USN), was formed in 2013. The coalition is dominated by the Alliance républicaine pour la démocratie (ARD), but also contains the PND, the Mouvement pour le renouveau démocratique et le développement (MRD) and the Union djiboutienne pour la démocratie et la justice (UDJ). Outside of the coalition, the Rassemblement pour l'action, la démocratie et le développement (RADD) was formed in early 2012, and the Centre des démocrates unifiés (CDU) in late 2012

Key ministers

President: Ismaël Omar Guelleh

Prime minister: Abdoulkader Kamil Mohamed

Secretary of state for decentralisation: Hamadou Mohamed Aramis

Secretary of state for youth & sports: Hassan Mohamed Kamil

Agriculture, water, fisheries & livestock: Mohamed Ahmed Awaleh

Budget: Abdoulkarim Aden Cher

Defence: Hassan Omar Mohamed Bourhan

Economy & finance: Ilyas Moussa Dawaleh

Energy: Yonis Ali Guedi

Foreign affairs & international co-operation: Mahamoud Ali Youssouf

Health: Mohamed Warsama Dirieh

Higher education & research: Nabil Mohamed Ahmed

Infrastructure & transport: Moussa Mohamed Ahmed InteriorMoumin Ahmed Cheick

Justice & penitentiary affairs: Ali Hassan Bahdon

Labour: Isman Ibrahim Robleh

Muslim affairs & culture: Moumin Hassan Barreh

National education & vocational training: Moustapha Mahamoud

Urbanism, environment & tourism: Mohamed Abdoulkader Helem

Central bank governor

Ahmed Osman Ali

Economic structure

Annual indicators

	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]
GDP at market prices (Dfr m)	290,348.6	313,545.8	327,835.5	349,394.4	348,576.8
GDP (US$ m)	1,633.7	1,764.3	1,844.7	1,966.0	1,961.4
Real GDP growth (%)	9.7	8.7	4.1	6.0	6.7
Consumer price inflation (av; %)	-0.8	2.7	0.6	0.1	3.2
Population (m)	0.9	0.9	0.9	1.0	1.0
Exports of goods fob (US$ m)	133.6	139.0	142.3	156.2[b]	185.5
Imports of goods fob (US$ m)	870.5	705.2	767.9	803.2[b]	821.7
Current-account balance (US$ m)	-301.7	-170.0	-293.6	-192.5[b]	-175.4
Foreign-exchange reserves excl gold (US$ m)	354.6	398.5	547.7	444.6	480.0
Exchange rate (av) Dfr:US$	177.7	177.7	177.7	177.7	177.7

[a] Actual. [b] Economist Intelligence Unit estimates.

Origins of gross domestic product 2018[a]	% of total	Components of gross domestic product 2018[a]	% of total
Agriculture	2.5	Private consumption	58.4
Industry	17.7	Government consumption	31.5
Services	79.8	Gross domestic investment	24.2
		Exports of goods & services	34.6
		Imports of goods & services	82.3
Exports 2009	**% of total**	**Imports 2009**	**% of total**
Machinery & transport equipment	48.7	Machinery & transport equipment	32.6
Foods & beverages	19.9	Foods & beverages	27.9
Miscellaneous materials	16.9	Miscellaneous materials	11.4
Main destinations of exports 2018[b]	**% of total**	**Main origins of imports 2018[b]**	**% of total**
Somalia	27.5	UAE	21.5
Ethiopia	27.5	France	14.2
Brazil	9.8	Saudi Arabia	11.0
Yemen	7.8	China	7.9

[a] World Bank. [b] IMF, Direction of Trade Statistics.

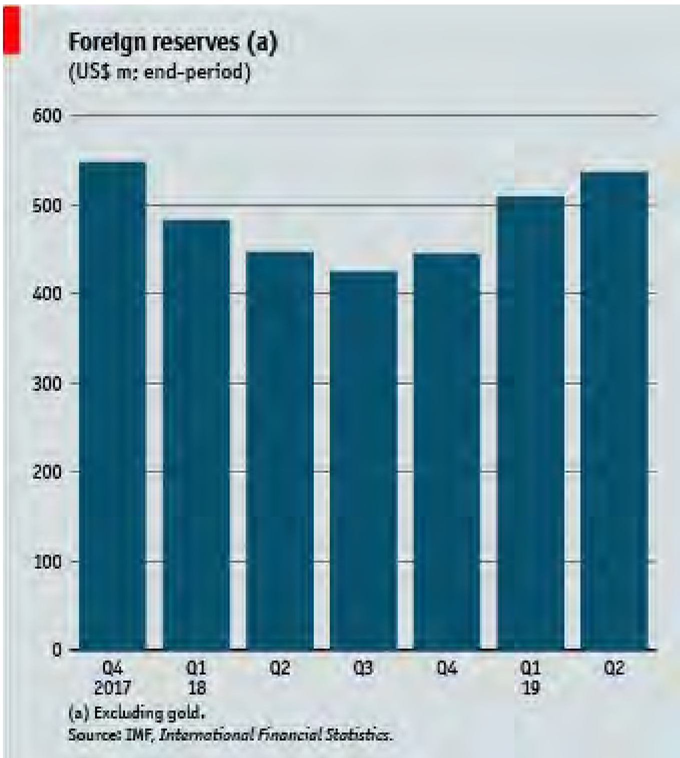
Quarterly indicators

	2017 4 Qtr	2018 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2019 1 Qtr	2 Qtr	3 Qtr
Financial indicators								
Exchange rate Dfr:US$ (av)	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Exchange rate Dfr:US$ (end-period)	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Exchange rate Dfr:€ (av)	209.3	218.5	211.9	206.7	202.8	201.8	199.7	197.6
Foreign trade (US$ m)[a]								
Exports fob	84.3	80.6	106.5	87.1	89.8	70.5	70.0	n/a
Imports cif	-415.7	-352.0	-493.4	-380.2	-399.5	-417.8	-478.1	n/a
Trade balance	-331.4	-271.4	-386.9	-293.1	-309.7	-347.3	-408.1	n/a

Foreign reserves (US$ m)								
Reserves excl gold (end-period)	548	483	447	425	445	509	537	n/a

[a] DOTS estimates.

Sources: IMF, International Financial Statistics; Direction of Trade Statistics.



Outlook for 2020-21

Political stability

The long-standing president, Ismaël Omar Guelleh, and his governing coalition, the Union pour la majorité présidentielle (UMP), will remain firmly in power, with a 57-seat majority in the parliament in 2020-21. Within the UMP, power will remain heavily concentrated in Mr Guelleh's party, the Rassemblement populaire pour le progrès (RPP). Divisions within the UMP will stoke some volatility as other political parties seek to muster influence and secure access to resources for their constituents, especially those representing the economically neglected Afar region in the north. However, having successfully centralised power over the past 20 years of his rule and developed far-reaching networks of patronage, Mr Guelleh will block his rivals well before they pose a threat to his authority.

Political tensions between the ruling coalition and the opposition will persist, as anti-Guelleh elements remain aggrieved over what they perceive as a repressive political atmosphere and a continual erosion of democracy. Political and social tensions are likely to peak ahead of the presidential election scheduled for 2021, which The Economist Intelligence Unit expects Mr Guelleh to contest again. Any related unrest might turn violent, mainly because the security forces have a history of meeting protests with a heavy-handed response. This will, however, not pose a challenge to overall security, mainly because the opposition support base is divided. By comparison, Mr Guelleh's support base remains strong at national level, owing to a decent economic performance under his rule to date. However, the government has failed to translate infrastructure-driven growth into improved job prospects or a better standard of living. This means that Mr Guelleh's approval rating has most likely declined in recent years and economic hardships will continue to stoke frustrations with his administration among sections of the public.

The armed wing of the Front pour la restauration de l'unité et de la démocratie (FRUD), a political party that is demanding greater political and economic autonomy for the Afar ethnic group, continues to pose security risks. The party's armed wing remains capable of staging low-level attacks and, given the remoteness of its stronghold in northern Djibouti, the military will struggle to quash the threat decisively. Under the terms of a bilateral military co-operation pact, Ethiopian troops are obligated to assist Djibouti's security forces upon request, and, with Ethiopia's state of emergency having been lifted in August 2017, more troops will be freed up to respond to potential insurrections, limiting the prospect of them creating widespread instability.

Election watch

The UMP won a majority in the 2018 legislative elections with 57 of the 65 seats, although this was also owing to the Mouvement pour le renouveau démocratique et le développement (a part of the main opposition coalition, the Union pour le salut national) boycotting the elections, claiming that elections in Djibouti are never "free and fair". Given the benefits of incumbency, which have been reinforced by the opposition's long-held policy of non-participation, Mr Guelleh is well placed to win another victory when the presidential election is held in 2021.

International relations

Throughout the forecast period, the government's foreign policy challenges will revolve around improving ties with Djibouti's key trading partners and countries with which it shares borders. Relations with Djibouti's most important neighbour, Ethiopia, will continue to deepen, underpinned by the countries' mutually dependent commercial interests and defence agreements, as well as planned and existing inter-connecting infrastructure. Landlocked Ethiopia accounts for more than 80% of the trade traffic through Djibouti's ports and supplies the country with drinking water and hydropower, reducing Djibouti's reliance on imported oil for meeting its energy needs, but reinforcing its economic dependence on Ethiopia. Although Djibouti is benefiting from its economic integration with Ethiopia, it also poses a risk of an economic downturn in Ethiopia spreading to Djibouti with even greater intensity. The same holds true in reverse, and so Ethiopia has made various efforts to diversify its overseas trading routes away from Djibouti. Indeed, the peace deal between Ethiopia and Eritrea in 2018 provides the former with an additional trade route via the latter. However, large-scale investment will be needed to address the poor state of Eritrea's infrastructure and equip Eritrea's ports sufficiently to handle Ethiopia's trade traffic. The port of Djibouti will, therefore, remain Ethiopia's key trade outlet in 2020-21.

Djibouti's relations with UAE (formerly an important source of investment inflows) will remain strained, owing to the government's dispute with DP World a UAE-based logistics company (the dispute relates to Djibouti's cancellation in 2018 of DP World's contract to operate the Doraleh Container Terminal, which was subsequently nationalised). Nonetheless, relations with the wider international community will remain strong, as Djibouti's geopolitical importance will ensure that its main allies continue to overlook the alleged human rights abuses carried out by the regime. Djibouti's relative political stability and its proximity to Somalia, Yemen and the Gulf of Aden will underpin its importance as a regional base for counter-terrorism and anti-piracy operations for French, US, Chinese and Japanese armed forces. Relations with China—already a major source of finance—will remain strong (as Djibouti provides easy access to the Ethiopian market, in which China is primarily interested). Moreover, Djibouti forms an integral part of China's Belt and Road Initiative. Djibouti will continue to seek deeper economic relations with non-traditional partners, such as Egypt and Japan.

Policy trends

The government intends to strengthen Djibouti's position as a regional trading and logistics hub and leverage the rapid expansion in Ethiopia’s trade and transshipment activities. These plans are underpinned by ambitious infrastructure schemes, financed by a mix of debt-funded government expenditure, with a significant proportion of debt owed to China, and foreign direct investment (FDI). In its Article IV review published in October 2019 the IMF said that the present value of the external debt-to-GDP ratio (76.3% in end-2018) breaches its threshold (40%), placing the country in high risk of debt distress. Against the backdrop of rising debt service and delays in operationalising the Djibouti to Addis Ababa railway project, the authorities and the Export-Import Bank of China have reportedly agreed on the restructuring of the loan contracted for that project. The two parties have reportedly signed a Memorandum of Understanding (MoU) to extend the loan’s grace period and maturity, to reduce the interest rate, and to restructure past due interest accumulated during the restructuring discussions. The agreement is likely to be finalised in the coming months and should help ease the debt burden in 2020-21.

The government will also seek new avenues for private finance and FDI to support infrastructure development, particularly for port development, free trade zones (FTZ), a water pipeline, and the railway from Djibouti to Addis Ababa. There is plenty of potential for attracting international finance, as evident from the leap in Djibouti’s ranking from 171st to 99th in the World Bank’s Doing Business rankings over the past two years. Reform in areas like strengthening contract enforcement and property rights will help mitigate the potential reputational risk associated with the cancellation of DP World’s contract.

Overall, in balancing the need for private investment with the need to protect political interests (notably, sources of patronage), we expect government policy to create a divided economy. Fast-growing sectors, such as the re-export industry, will boost some private-sector development, but sectors with long-standing state-owned monopolies (including energy and telecommunications) will remain much less dynamic.

Fiscal policy

The true fiscal picture is complicated by a lack of transparency. We expect the budget deficit to narrow from an estimated 2.7% of GDP in 2019 to 2.1% of GDP in 2020 and 1.5% in 2021, as the public capital spending falls from recent highs and dividends from past investments are realised. Nonetheless, expenditure will drop only marginally as a proportion of GDP as construction work on the country's FTZ continues to pull in government funds. Moreover, interest payments on the railway and water pipeline loans, which are being serviced by the government, will also keep spending high. In line with the IMF's recommendations, we expect the authorities to step up efforts to contain current expenditure and direct the savings generated by this towards increasing the social safety net, and health and human capital outlays. However, these will bear fruit only over the longer term, and fiscal slippages are highly likely.

Government revenue will rise modestly during 2020-21, supported by growing service exports from the lease of land that is used by foreign armed forces as military bases (notably those of France and the US). The development in trade and transport infrastructure in recent years, and further planned improvements, position the country well to benefit from growth in Ethiopia's trade and will therefore boost revenue. Further reforms, such as enhancing tax collection and customs administration, will support growth in fiscal receipts in 2020-21. Even so, generous tax exemptions will continue to limit the potential benefits to government revenue of infrastructure-related inflows. Despite IMF recommendations, the government is unlikely to make significant progress in rationalising tax exemptions and special regimes to broaden the tax base, which will constrain revenue growth.

The deficit will be financed mainly by external borrowing, with a particular reliance on Chinese credit lines. The IMF has raised concerns about Djibouti's build-up of debt to finance infrastructure, particularly from China, stating that this has led to a high risk of debt distress. Although an unmanageable debt load is necessitating reforms, the government is unlikely to undertake these as long as Chinese credit remains available. Debt could build up further, if infrastructure projects fail to stimulate high levels of long-term economic growth.

Monetary policy

The Banque centrale de Djibouti (BCD, the central bank) will continue to manage liquidity satisfactorily, although inflation is more influenced by supply-side factors than by the BCD's policy interventions. The BCD has been planning to introduce reserve requirements to strengthen liquidity management in the local banking sector since 2012, but these have not yet been set and the timeframe for doing so remains unclear. Nonetheless, the central bank will continue to ensure that international reserves provide over three months of import cover, in order to sustain the Djibouti franc's overvalued peg to the US dollar at Dfr177.72:US$1. Notwithstanding the central bank's efforts to improve risk-management procedures, inadequate information about borrowers and weak asset quality will be chronic issues, putting a strain on liquidity and will prevent financial deepening.

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2018	2019	2020	2021
Real GDP growth				
World	2.9	2.3	2.5	2.8
OECD	2.3	1.6	1.5	1.8
EU28	2.0	1.4	1.4	1.7
Exchange rates				
¥:US$	110.4	108.4	105.9	104.6
US$:€	1.181	1.117	1.120	1.168
SDR:US$	0.706	0.725	0.726	0.711
Financial indicators				
€ 3-month interbank rate	-0.32	-0.35	-0.37	-0.24
US$ 3-month commercial paper rate	2.08	2.13	1.48	1.54
Commodity prices				
Oil (Brent; US$/b)	71.1	64.1	63.0	67.0
Cotton (US cents/lb)	91.4	77.4	76.5	73.9
Food, feedstuffs & beverages (% change in US$ terms)	1.6	-5.7	0.5	4.6
Industrial raw materials (% change in US$ terms)	2.2	-8.2	1.0	3.5

Note. GDP growth rates are at market exchange rates.

Economic growth

We estimate that economic growth will accelerate to 6.7% in 2019, driven by growth in transportation and logistics exports on the back of improved trade infrastructure. According to the World Bank, container terminal volume increased by 8.3% between January and July 2019 to reach 520,000 TEU, while bulk cargo volume increased by 17.7%, to 3.5m tons in the same period. We expect economic growth to moderate slightly to a still-strong 6.5% in 2020, mainly reflecting a slowdown in world trade. In 2021 real GDP growth will pick up to 6.7% supported by steady growth in re-exports in line with the development of the free zone and exports of transportation, logistics, and telecommunication services. Throughout the forecast period, re-exports will replace public investment (which has been a buttress of rapid economic activity in recent years) as the key driver of economic growth as recently completed infrastructure projects come on stream. The infrastructure development will help position Djibouti to capitalise on Ethiopia’s steady growth through a rise in exports. Although private investment is likely to increase over 2020-21, the public sector will remain dominant. Downside risks to the growth forecast remain a slowdown in Ethiopia and the failure of the infrastructure projects to generate expected returns on investment.

Inflation

After rising to an estimated 3.2% in 2019 (owing to a low base in 2018 and a spike in domestic food prices), we expect inflationary pressures to pick up slightly, to 3.3% in 2020 as global food prices rise. The country's high dependence on food imports (required for 80-90% of domestic needs) makes it vulnerable to global price movements. A further uptick in prices will be prevented by a stable US dollar against the country’s major trading partners, including the euro (France is a major trading partner). In 2021 a weaker US dollar vis-à-vis Djibouti's other trading partners' currencies and an anticipated rise in global food and beverages prices exert upward inflationary pressures, taking it to 3.5% in that year.

Exchange rates

The Djibouti franc will remain fixed to the US dollar at Dfr177.72:US$1 in 2020-21, under a currency-board regime. The exchange rate against other currencies will, therefore, mirror movements in those currencies against the US dollar. After appreciating in 2019, reflecting political volatility in Italy and uncertainty surrounding Brexit, we expect the dollar to remain stable against the euro in 2020 as the Federal Reserve (Fed, the US central bank) further eases its monetary policy, uncertainty surrounding Brexit continues and the US presidential election approaches. We expect the sentiment towards the euro to recover more markedly from 2021 as growth in the region recovers, prompting the ECB to end the quantitative easing (QE) programme and as the euro zone's large current-account surplus is maintained. In Djibouti, as the current-account deficit narrows in 2020-21, foreign-exchange reserves will grow slightly, averaging 5.3 months of import cover over the two-year period. We also expect the BCD's gross foreign assets to provide full coverage of base money, in line with its legal obligations under the currency-board arrangement.

External sector

The current-account deficit will continue on a downward trend, narrowing from an estimated 8.9% of GDP in 2019 to 5.4% of GDP in 2020 and 3.7% of GDP in 2021, driven primarily by growth in re-exports. Djibouti has a structural trade deficit, driven by huge imports of goods for the domestic market (principally food, fuel and electricity), which has been exacerbated by a surge in capital goods imports for infrastructure projects in recent years. Some ongoing infrastructure projects, such as expansion of the FTZ, and rises in global food prices will keep the import bill large. However, over the forecast period, the current-account deficit will narrow on the back of robust growth in services exports and merchandise re-exports. With new logistics infrastructure in place—particularly the Doraleh multi-purpose port and the Djibouti-Addis Ababa railway—the country is well positioned to benefit from rising external sector activity in Ethiopia. The fall in capital imports compared to recent years (as major infrastructure projects reach completion) will be offset by rising global food prices and oil prices (in 2021) and keep the import bill large. Overall, as export earnings outweigh the import bill, the trade deficit will fall as a proportion of GDP from an estimated 32.7% in 2019 to 24.7% in 2021.

The primary income account will remain in surplus, albeit while contracting gradually alongside rising debt repayments, reflecting robust investment returns on the growing stock of international reserves. The surplus on the secondary income account will expand as a result of land leased by other countries for military facilities. Overall, the deficit will be financed mainly by FDI and external borrowing, with an emphasis on bilateral creditors.

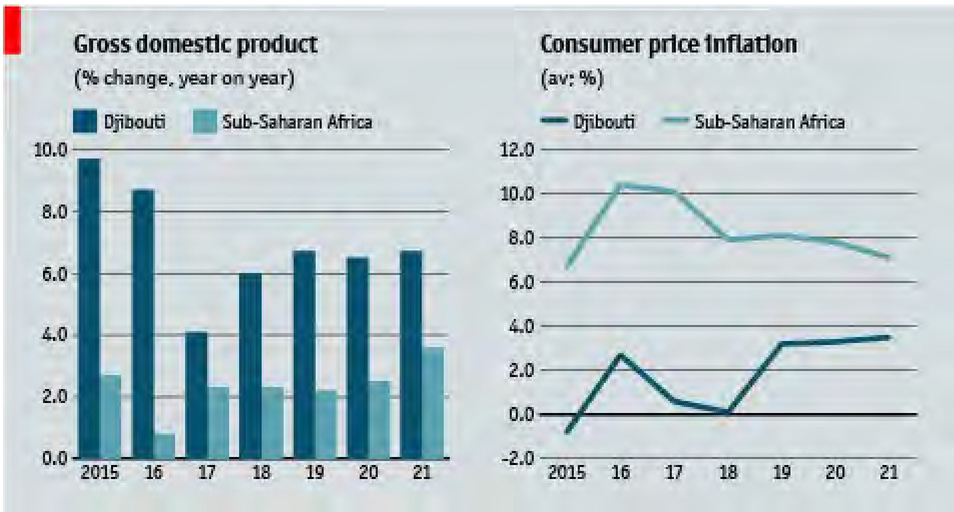
Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018[a]	2019[b]	2020[c]	2021[c]
Real GDP growth	6.0	6.7	6.5	6.7
Consumer price inflation (av)	0.1	3.2	3.3	3.5
Lending interest rate	11.1[b]	11.3	11.3	11.3
Government balance (% of GDP)	-3.0	-2.7	-2.1	-1.5
Exports of goods fob (US$ m)	156.2[b]	185.5	203.9	214.7
Imports of goods fob (US$ m)	803.2[b]	821.7	893.1	980.2
Current-account balance (US$ m)	-192.5[b]	-175.4	-134.3	-117.6
Current-account balance (% of GDP)	-9.8[b]	-8.9	-5.4	-3.7
Exchange rate Dfr:US$ (av)	177.72	177.72	177.72	177.72
Exchange rate Dfr:¥100 (av)	160.93	163.96	167.86	169.86
Exchange rate Dfr:€ (av)	209.97	198.58	199.05	207.49
Exchange rate Dfr:SDR (av)	251.65	245.22	244.95	250.11

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.



Recent analysis

Generated on January 22nd 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

WTO's dispute-settlement mechanism collapses

December 11, 2019: International relations

Event

On December 10th two of the three remaining judges on the appellate body of the World Trade Organisation (WTO)—the main dispute-settlement body of that institution—retired from service. As a minimum quorum of three judges is required for the appellate body to function, the event effectively marked the collapse of the WTO's dispute-settlement mechanism.

Analysis

The US has had long-standing grievances with the appellate body (and the WTO more generally), even in the face of several WTO cases that it has won recently. These objections also predated the administration of Donald Trump, the current US president.

US concerns over the role of the appellate body—including allegations that it had overstepped its jurisdiction—arose during the presidency of George W Bush (2000-08), whose administration took issue with the body's findings that the US methodology for calculating anti-dumping and countervailing duties (a controversial practice known as "zeroing") were not WTO-compliant. This attitude hardened under the presidency of Barack Obama (2008-12), who blocked the reappointment of two appellate body judges (and obstructed consensus over the appointment of a third) during his time in office.

Mr Trump has since maintained this strategy of blocking appointments. The Economist Intelligence Unit had expected this outcome because of the president's long-harboured hostility towards the WTO. However, the collapse of the dispute-settlement mechanism will not immediately spell doom for either the WTO itself or the future of global commerce. We continue to expect global trade growth (by volume) to rebound modestly into positive territory in 2020, as the world acclimatises to the "new normal" of US-China economic tension and trade demand stabilises across major markets.

Nevertheless, the dissolution of the WTO's main dispute-settlement mechanism will erode important constraints on protectionist bad behaviour. There is now a growing risk that the lack of an international arbiter will allow both existing and future trade disputes to escalate more quickly. This will be particularly critical as the US-China trade war persists into 2020, while emerging disputes elsewhere—such as between South Korea and Japan, France and the US and the EU and Malaysia—weigh on the prospects of trade liberalisation more generally. Without the appellate body, these and other potential trade conflicts will continue to cast a shadow over world trade next year.

Impact on the forecast

We had anticipated that the WTO appellate body would cease to function by December, and have already built this event into our forecasts from 2020 onwards.

Conflicts in Africa set to intensify in 2020

January 14, 2020: Political stability

Event

In early January data from the Armed Conflict Location & Event Data Project (ACLED, a US-based non-government organisation) showed that violence in Africa escalated in 2019.

Analysis

The security situation deteriorated across significant parts of Africa in 2019, which is in line with a general rise in protests and social unrest already noted by The Economist Intelligence Unit across the continent over the same period. ACLED recorded 12,053 violent incidents (including bombings, violence against civilians and battles) in Africa between January 2019 and the start of 2020, with 29,407 fatalities reported. That compares with the 11,461 reported incidents involving 27,858 deaths that ACLED recorded in Africa during the same period of the previous year. The rise in both violent incidents and related deaths in 2019 implies that conflicts in different parts of the continent will intensify in early 2020, as both non-state actors (such as the Nigerian jihadi group Boko Haram) and foreign powers (such as Turkey) step up their operations on the continent.

Violence occurred across all regions of Africa in late 2019 and this geographic spread will make it difficult to concentrate diplomatic efforts and peacekeeping resources effectively in 2020. In south-western Africa, post-election tensions in Mozambique resulted in incidents of violence between the ruling party, Frelimo, and its rival, Renamo. The security crisis in the Sahel has worsened, causing the temporary postponement of a meeting between the presidents of the G5 Sahel group of countries (a regional alliance fighting militant groups in West and Central Africa consisting of Mali, Niger, Burkina Faso, Mauritania and Chad) and France until January 13th 2020. In East Africa, the Somali militant group al-Shabab launched three terrorist attacks across the border into neighbouring Kenya in January 2020, one of which killed three US Defence Department personnel (including a US soldier). In nearby Ethiopia, security remains extremely fragile despite an ongoing loosening of previously tight restrictions by the central government. In North Africa, fighting in Libya seems likely to intensify as foreign powers increase their involvement in the country's civil war. The deepening involvement of Middle Eastern powers in entrenched African conflicts looks set to be another enduring theme in 2020, especially in the Horn of Africa and Libya.

Impact on the forecast

The data showing a rise in violent incidents and deaths in 2019 support our forecast that conflicts will intensify across Africa in 2020, in line with increased social unrest in many countries.

Djibouti loses arbitration case with DP World

January 21, 2020: International relations

Event

The London Court of International Arbitration has ordered Djibouti's government to restore rights and benefits to UAE-based DP World in the Doraleh Port case.

Analysis

The Doraleh Container Terminal (DCT) is jointly owned by the government's Port of Djibouti Authority (PDA), which has a controlling stake (66.6%) in the company, with DP World owning the remaining 33.3%. The dispute dates back to February 2018, when Djibouti ended a 30-year concession agreement and took over operations, which the arbitration court ruled illegal. DP World estimates it has lost US$1bn since Djibouti took control of DCT. In April 2019 the arbitration court ordered Djibouti to pay at least US$533m in compensation to DP World, an order that has been ignored. Djibouti maintains that the termination of the lease was legal, and is willing to negotiate a "mutually satisfactory solution", an offer that has, in turn, been rejected by DP World.

This latest ruling in the long-running dispute between DP World and the Djiboutian government over management of DCT requires Djibouti to restore the rights and benefits in accordance with the 2006 DP World and DCT concession agreement within two months, or pay damages. The court's decision was then rejected by the government, which said that the arbitration "flouts the rules of international law". Djibouti's rejection of the ruling is unsurprising, given that it has not recognised any of the arbitration court's previous rulings.

Djibouti's western partners—particularly France and the US, which have military bases in Djibouti—remain concerned that the control of Doraleh may pass on to a Chinese port operator, especially since the PDA has been working with Hong Kong-based China Merchants Holdings International to develop alternative container facilities at the Doraleh Multipurpose Terminal. Doraleh was discussed when China's foreign minister, Wang Yi, visited Djibouti on January 9th as part of a five-nation African tour. This will further cement China's influence in the country. The conflict with DP World will make other international investors wary of the finality of contract, making new investors doubly cautious. That said, given Djibouti's geostrategically important position, with several countries attempting to establish a commercial, military or maritime foothold there, and the fact that China remains the biggest source of finance and investment, foreign direct investment (FDI) inflows will remain strong.

Impact on the forecast

We continue to expect relations between Djibouti and the UAE to remain strained over the 2020-21 forecast period. Our international relations forecast is unchanged.

Analysis

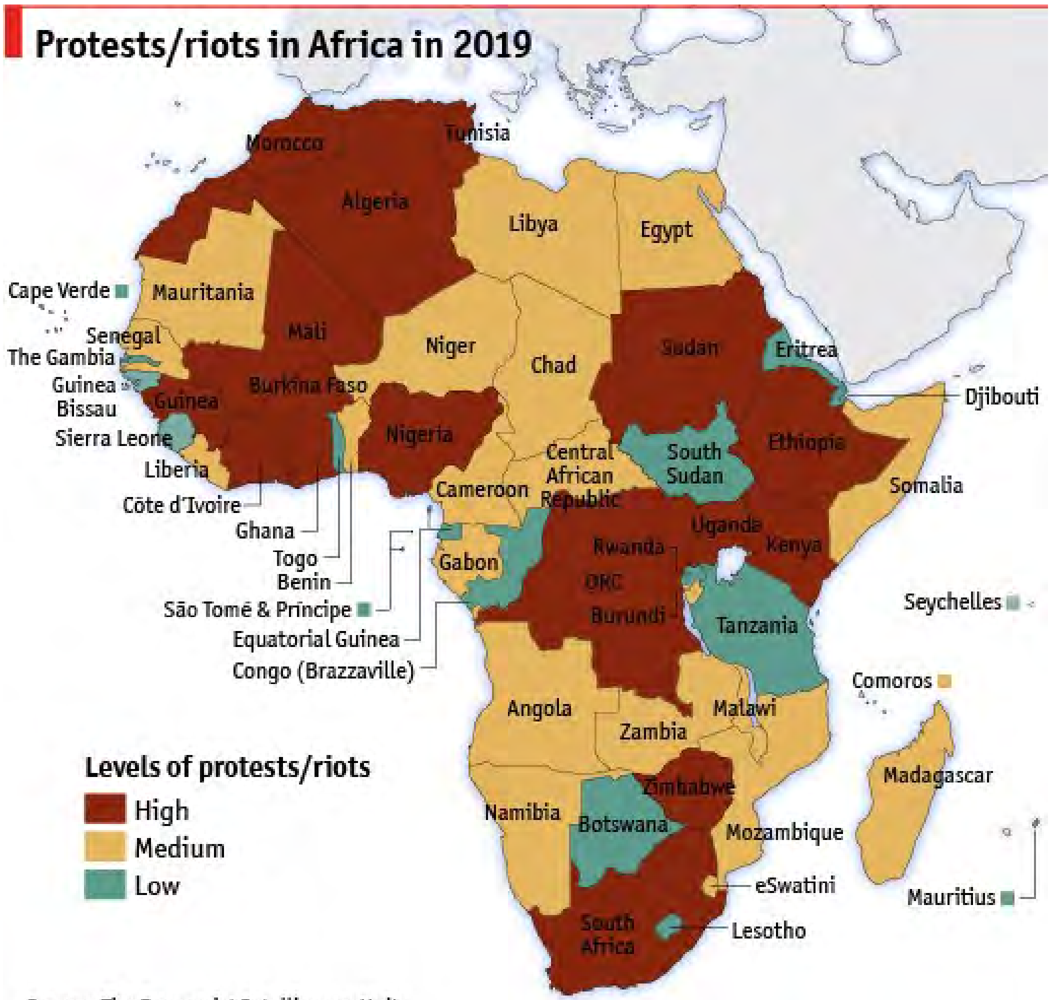
Protests in Sub-Saharan Africa

December 31, 2019

Sub-Saharan Africa has experienced its fair share of the mass protests that have erupted across the world in 2019. The affected countries vary considerably in terms of their economic structure and stage of development, political set-up and social fabric. Large mobilisations have occurred in Sudan, South Sudan, Ethiopia, Kenya, the Democratic Republic of Congo (DRC), South Africa, Cameroon and Nigeria, to name a few. The protests have been triggered by highly localised events and have differed from place to place in their participants, methods and goals. Despite these differences, there are some common underlying causes that unite the protests and present serious challenges for incumbent African leaders and their administrations as we head into 2020.

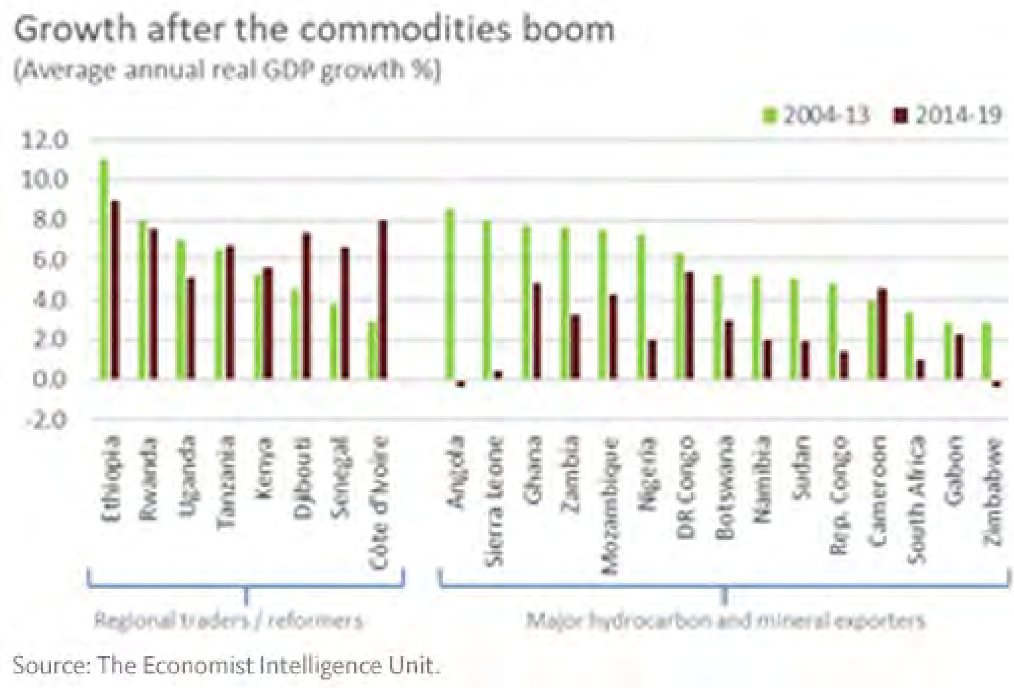
Various highly localised factors have triggered uprisings in Sub-Saharan Africa in 2019, which include rapidly rising bread prices in Sudan, planned redundancies and xenophobia in South

Africa, disputed election results in Mozambique, attacks by armed militias in the DRC and the attempted arrest of activists in Ethiopia. In most cases, these triggers have been a tipping point whereby localised single-issue demonstrations have escalated into much larger and broader anti-government protests. Protests in many countries have reflected a view that governments are self-serving institutions that have been either unable or unwilling to tackle sensitive issues relating to economic need and opportunity, political oppression and freedoms, as well as poor governance and corruption. These concerns have been on clear display during the protests witnessed in Sub-Saharan Africa during 2019.



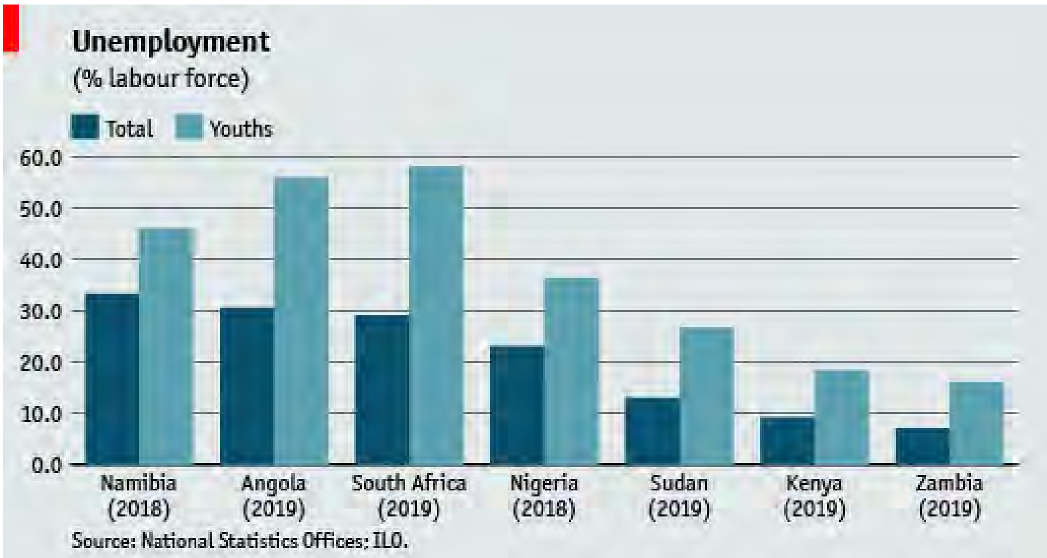
Source: The Economist Intelligence Unit.

Economic need and opportunity represent an over-riding yet multi-faceted driver of anti-government sentiment and mass protests across Sub-Saharan Africa. The region boasts some of the fastest-growing economies in the world, abundant and lucrative natural resources, enormous and youthful populations, an expanding urban middle class, strengthening trade linkages and strong inflows of foreign capital. However, many countries in Sub-Saharan Africa retain severe income inequality, widespread poverty, high levels of unemployment (particularly among youths) and informal and insecure employment and often inadequate social safety net programmes.



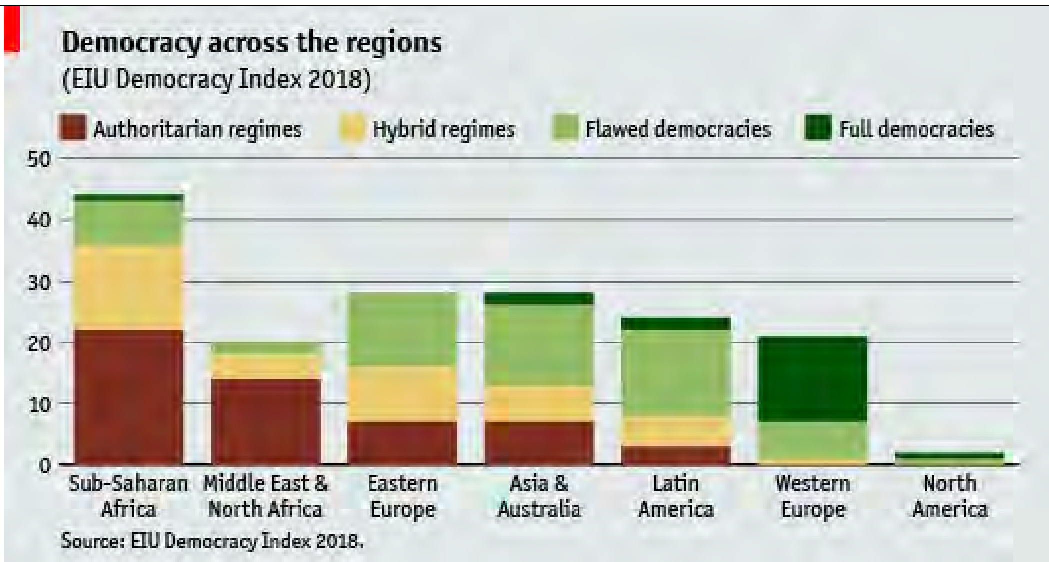
Many countries (especially the region's major oil, gas and mining nations such as South Africa, Nigeria, Angola, Zambia, Mozambique, the DRC and Sierra Leone) have struggled to cope with the downturn in commodity prices since 2014. The pre-2014 boom years have given way to more subdued growth rates in many parts of Sub-Saharan Africa, large fiscal and current-account deficits, rising debt levels, weak currencies and rapidly rising living costs. These developments have restricted the room for manoeuvre for some governments, led to a shift towards fiscal austerity, compounded poor public service provision and undermined job creation.

A toxic combination of high unemployment, the threat of job losses and the prevalence of insecure employment is an incendiary mix that has fuelled a wave of protests across Sub-Saharan Africa. Job-creation and household income stimulus programmes have been on the front burner for some time, but the region remains plagued by very high levels of general unemployment and much higher unemployment rates among the region's youths in the 15-24-year-old bracket. Meeting the demands of a rapidly increasing supply of youthful, urban, better educated and aspirational labour is proving to be a major headache for many governments. In addition to job creation, an additional and equally important problem is posed by the type of jobs on offer. A large majority of jobs in Sub-Saharan Africa (whether these are in the formal sector or much larger informal sector) provide insecure employment that entails low levels of pay, little to no job security and limited access to social protections.



Another facet of economic need that has unsettled citizens and brought them out on to the streets relates to widespread poverty, extreme income inequality and in some cases a long history of economic marginalisation. The UN reported that ten of the world's 19 most unequal countries measured on income distribution were found in Sub-Saharan Africa in 2017, and this regional profile is unlikely to have changed much in the subsequent two years. South Africa, the region's most developed economy, was ranked as the world's most unequal country in 2017, and Namibia, Zambia, the Central African Republic, Lesotho, Mozambique, Botswana, eSwatini, Guinea-Bissau and the Republic of Congo were also among the top 20 most income unequal nations worldwide. Concerns about income inequality and its drivers, as well as economic marginalisation, have proved highly contentious issues. For instance, mass protests by the Oromo and Amhara people of Ethiopia and the anglophone communities of western Cameroon are linked to a combination of low living standards, economic marginalisation and political exclusion. Similarly, the demonstrations that led to the removal of the long-standing president of Sudan, Omar al-Bashir, in April have close links to many years of economic woes, extreme poverty and unequal opportunity in wealth creation and political influence. Even in South Africa, the region's most diverse economy, large-scale protests have been driven by major societal inequalities and the demands for better living standards, as well as rampant corruption and poor public service delivery.

Political oppression and the lack of political freedoms have played a central role in driving angry anti-government protests in Sub-Saharan Africa during 2019. Major political grievances relate to disillusionment with long-standing, difficult to displace incumbent national leaders and their political parties. Elections have become more common across Sub-Saharan Africa over the past decade, but the region has some of the world's longest-serving heads of state and governing political parties, as well as the highest number of authoritarian and hybrid regimes of any major region in the world.



Public protests have contributed to a change in national leader in countries such as South Africa, Angola, Ethiopia, the DRC and Sudan over the past 12 months, but the dominant political party retains a tight grip on power. Political inertia and concentrated political power and influence remain major sources of public discontent and social unrest. Rapidly growing internet coverage and mobile networks in particular in Sub-Saharan Africa have facilitated the spread of information within countries and across borders. This evolving infrastructure, together with the quick uptake of social media and 24-hour news coverage, has helped mobilisations in one location to feed discontent and unrest elsewhere. Some African governments are fully aware of the threat posed by uncontrolled media outlets and have taken steps to reassert their grip on available information and key messaging. Some governments have clamped down on press freedoms, curtailed internet access and outlawed opposition groups. An international digital rights advocacy organisation, Access Now, has reported that there were 13 nationwide internet shutdowns across Africa in 2018, and this has been followed by new or continued shutdowns in Algeria, Ethiopia, Chad, Liberia, Malawi, Sudan and Zimbabwe in 2019. In addition to this, some governments are levying internet usage or social media taxes that have the (probably intended) consequence of in effect restricting access to or dissemination of information online. These tactics often run in parallel with state-sponsored media plans that push favoured lines and information or disinformation as claimed by some opposition groups. The success of these tactics tends to be short-lived and do little to quell the lingering feelings of resentment among activists and the wider population. Indeed, restricted freedom of speech and a lack of accountability among national governments have often served to incite further unrest and demonstrations.

Steady emergence of new leaders brings hope for change

A new group of national leaders has recently taken up office in some of the region's major economies, including Abiy Ahmed in Ethiopia, João Lourenço in Angola, Cyril Ramaphosa in South Africa, Félix Tshisekedi in the DRC and Muhammadu Buhari in Nigeria. These leaders represent a break from the past and have come to power on a platform of economic and social reforms, promises to tackle corruption and commitments to resolve local conflicts. Long-standing political parties remain in place, but there are some positive early signs of change. For instance, Mr Ahmed is shaking up the political landscape in Ethiopia and received the Nobel Peace Prize 2019 for his efforts to resolve the long-running border dispute with Eritrea. Mr Lourenço has moved quickly to dismantle the power base of his predecessor, Mr Ramaphosa is pushing hard with his economic and social reform agenda, and Mr Buhari is making some tentative steps towards tackling insecurity and corruption.

However, expectations are running high, and any faltering in the speed or direction of progress could quickly herald a new bout of disruptive protests and demonstrations. There is no doubt that African leaders will continue to be confronted by the thorny issues of income inequality, widespread poverty, high youth unemployment, job insecurity, poor public services, corruption and cronyism, entrenched political systems and restricted civil freedoms, not to mention the brutal effects of climate change. Anti-government mass protests will most certainly continue into 2020, given the challenges that remain and the growing demands posed by youthful, better educated and urbanised populations. The ride could easily become much bumpier in 2020.

Economy

Forecast updates

New gold-mining exploration in Djibouti

December 11, 2019: Policy trends

Event

Thani Stratex Resources (TSR), a gold exploration and development company based in the British Virgin Islands, has announced a three-year extension to its gold-exploration programme in Djibouti.

Analysis

The funding for the exploration programme was secured through a direct investment into Thani Stratex Djibouti (TSD), a joint venture company owned by TSR and Luxembourg-based African Minerals Exploration & Development (AMED, a private equity fund). The funding will be underwritten by AMED and will take the form of unsecured convertible notes to TSD, which will convert to preference shares at US$2.24/share. The preference shares will be convertible to ordinary shares on a one-for-one basis. TSR holds 12 exploration licences in Djibouti, but the new three-year drilling programme will focus on three locations—the Pandora, Hesdaba and Assaleyta projects—with initial work expected to begin in December.

The prospects for commercially viable gold deposits in Djibouti, which is situated at the northern end of the African Rift Valley, have been good since a number of outcropping epithermal gold systems were discovered in 2013. Epithermal deposits are typically high-grade, shallow deposits with relatively small tonnage. Large-scale commercial gold mines are operational in neighbouring Ethiopia, where gold is the country's main mineral export, and Eritrea, but mining in Djibouti is currently focused largely on gypsum. The port of Ghoubet (located on the central section of Djibouti's coast), which was inaugurated in 2017, is dedicated to salt and gypsum exports.

Djibouti revised its mining code in 2016 to target investment as part of the government's efforts to diversify the economy with its Djibouti Vision 2035 strategy for economic development and inclusive growth. Gold-mining has the potential to broaden Djibouti's very narrow range of exports and to diversify the country's economy beyond the current focus on infrastructural investment designed to position the country as the subregion's logistics and trade hub. However, mines are unlikely to be operational until after the end of the 2020-21 forecast period, owing to skills shortages and an uncertain business environment.

Impact on the forecast

We continue to expect only slow progress in developing Djibouti's mining sector. In the short-to-medium term, Djibouti's external sector will remain dependent on re-exports.

Delays expected in 2020 over activating free-trade zone

January 15, 2020: Economic growth

Event

At end-December the president of the African Development Bank (AfDB), Dr Akinwumi Adesina, was endorsed by the Economic Community of West African States (ECOWAS) at the 56th ordinary session of the Authority of Heads of State and Government of ECOWAS, for a second five-year term at the AfDB from 2020.

Analysis

The ECOWAS endorsement came in part for Dr Adesina's work on pushing through the African Continental Free Trade Area (AfCFTA) in 2019 (a key component of the AfDB's wider push for deeper regional integration in Africa under him). Dr Adesina estimates that the continent-wide free-trade zone (FTZ) will be worth US$3.3trn once it formally begins on July 1st 2020. Officially, the AfCFTA came into force on May 30th 2019 after being ratified by 22 countries (the minimum number of signatory countries required to activate enactment of the agreement's provisions, without which the agreement would have lain dormant; 54 African states have signed the agreement and 27 have ratified it). However, international trade agreements are not self-executing and African countries were given until mid-2020 to prepare for it actively.

Despite this grace period, The Economist Intelligence Unit remains sceptical as to whether most AfCFTA signatory states will be ready to implement the agreement by the July 2020 deadline—many because their governments are too distracted or uninterested to implement it meaningfully. Some larger African countries, such as Nigeria, are still ambivalent about the agreement and, therefore, hesitant to push (and support) their smaller, less developed neighbours into preparing for its activation. Other important economies, such as Ethiopia and South Africa, are gripped by domestic crises that are absorbing reformers' energies. Moreover, the institutional frameworks to deal with legal issues arising from implementing AfCFTA (such as the non-complementarity of many goods across different markets) remain too weak in many African states to be ready, even with over a year's notice. Sluggish implementation of necessary legal changes and other obstacles will, therefore, see the vast majority of African states fail to meet the July 2020 deadline. While pan-African institutions like the African Union (AU) and the AfDB will continue to push for action, we expect the agreement's activation will be postponed (de facto if not de jure) until at least the end of 2020.

Impact on the forecast

In line with the expected postponement of AfCFTA's implementation, we maintain our forecast that substantive benefits from the treaty will not occur within the 2020-24 forecast period.

Analysis

Is Africa open for business?

November 5, 2019

The October releases of Doing Business 2020 from the World Bank and the Global Competitiveness Report 2019 from the World Economic Forum (WEF) offer a fresh chance to assess the relative standing of Sub-Saharan Africa (SSA). Both convey the message that SSA is improving in absolute terms but making slower progress in relative terms because other regions are reforming at a similar or faster pace. Within this broad context, some SSA countries are rising up the rankings while others are falling, underlining the region's diversity. A notable feature of the various league tables now published—including Transparency International's Corruption Perceptions Index and The Economist Intelligence Unit's Democracy Index—is the leading position held by a select group of countries that regularly appear in the top 10 of several indices: Botswana, Cabo Verde, Ghana, Mauritius, Namibia, Rwanda, Seychelles, Senegal and South Africa. This is hardly surprising, given the obvious correlations between governance, corruption, economic performance and policy coherence.

No single index can capture the complexities of a country's business environment, as each takes a different perspective. The Doing Business index, covering 190 countries, focuses on the regulatory framework, using objective measures such as the time needed to start a business, making it simple to understand and explaining its appeal to policymakers. It also has flaws (as do all the indices), as many aspects of the business climate are not included, such as corruption and infrastructure. The Doing Business index also applies solely to mid-sized local firms, overlooking small enterprises and multinationals, which typically encounter different rules. The WEF's competitiveness index takes a much broader perspective, assessing factors such as institutions, skills and innovation, but many parameters are subjective and country coverage is smaller (at about 140). Additionally, some pillars, such as health and the macro-economy, are based on just one or two underlying indicators. Regular changes in methodology in both indices make comparisons over time less reliable. Our business environment rankings cover just four African countries: Nigeria, Angola, South Africa, and Kenya. The scores for these countries typically suffer from weak corporate governance and regulation, as well as poorly trained labour forces and, in countries such as Angola and Nigeria, an over-reliance on hydrocarbons. Nevertheless, despite the problems of operating in the region, rates of return can be high for those firms that can master the complicated political environment and regulatory climate.

Doing business in SSA

In the WB Doing Business league, Mauritius tops the regional rankings by a large margin—coming first in five of the ten components—and stands 13th globally. Tarnishing this impressive performance is its reputation for facilitating tax evasion. Rwanda ranks second regionally (out of 48 countries), despite dropping nine places globally to 38th. Kenya, third regionally, made a strong advance globally, rising five places to 56th, to mark a fifth consecutive year of improvement. Kenya undertook several reforms in the year to end-May (the cut-off point), making it easier to deal with construction permits, secure an electricity supply, obtain credit, pay taxes and resolve insolvency, although registering property became harder. Illustrating potential flaws in the index, however, Kenya ranks first globally for protecting minority investors, which seems far-fetched. South Africa, fourth in the region, dipped two places globally to 84th, despite facilitating contract enforcement and, in contrast with Kenya, is sliding over time. Zambia, Botswana, Togo, Seychelles, Namibia and Malawi complete the SSA top ten. Nigeria's regional (17th) and global (133rd) rankings are much poorer, although the World Bank named the country as one of the top ten global reformers this year, alongside Togo. Last year, in contrast, SSA claimed five of the top ten spots: Djibouti, Togo, Kenya, Cote d'Ivoire, and Rwanda.

Competitiveness is a relative concept

Several of the best Doing Business locations in SSA also feature in the regional top 10 in the WEF's competitiveness index. Mauritius claims top spot (out of 34 countries), to lie 52nd globally, followed by South Africa, which posted a seven-place global rise to 60th, on the back of a strong improvement in its underlying score, especially in the institutions category. Seychelles came third, Botswana fourth, Namibia fifth, Kenya sixth and Rwanda seventh, with both Namibia and Rwanda, like South Africa, registering solid advances. Ghana, Cabo Verde and Senegal (114th globally) rounded off the top 10. A large majority of SSA countries posted higher scores in the 2019 WEF index, but only nine made ranking gains and, by extension, competitiveness gains.

List-topping countries

Given the close links between good governance and economic performance, it comes as no surprise that SSA's top-ranked states in the CPI and the Democracy index feature many of the same names. Seychelles leads the corruption rankings, followed by Botswana, Cabo Verde, Rwanda, Namibia, Mauritius, Senegal and South Africa. In terms of democracy, Mauritius leads from Cabo Verde, Botswana, South Africa, Lesotho, Ghana, Namibia and Senegal, with other countries falling below the threshold for being rated as democratic. Yet another league, the Fragile States Index, is similar, with the least fragile SSA countries being Mauritius, Seychelles, Botswana, Ghana, Namibia, Cabo Verde, Gabon and South Africa.

From a broad perspective, the countries that appear in the top 10 in all five indices—Botswana, Mauritius, Namibia and South Africa—can be seen as the most favourable business locations. South Africa's orbit extends to the other three, to varying degrees. Cabo Verde, Ghana and

Seychelles (with four top tens), Rwanda and Senegal (with three) and Benin, Kenya, Lesotho and Zambia (with two apiece) all hold promise but each has particular challenges. Kenya, for example, ranks well on regulations and competitiveness, but falls down on corruption and democracy. Senegal's main weakness is excessive regulation, while Rwanda's primary flaw is a democratic deficit.

The various indices highlight two main factors. SSA is advancing in absolute terms, by cutting red tape for example, but is failing to make gains compared to other regions. Second, regional gains are concentrated in a select group of countries, while others risk lagging behind. In the medium term, SSA will start making gains vis-à-vis other regions, as they reach the limits of improvement, although divergences and disparities within SSA will be more persistent. SSA is clearly open for business but the indices can provide no more than a snapshot, sometimes fuzzy, of the operating environment in the region's diverse markets.

Remittances surpass FDI flows into Sub-Saharan Africa

December 11, 2019

Remittance flows into Sub-Saharan Africa (SSA) increased by 10.3% to US$46.2bn in 2018, and provisionally rose again in 2019, according to updated World Bank figures in October. The sum comfortably surpassed foreign direct investment (FDI) inflows of US$31.6bn in 2018—based on the latest *World Investment Report* from the UN Conference on Trade and Development (UNCTAD)—highlighting the importance of remittances to the balance of payments and the wider economy. FDI may be more valuable on a per dollar basis than remittances, of which a significant portion is used for consumption or for investment in less productive assets (such as real estate)—and sometimes for political party funding—but FDI is more volatile, is often focused on minerals and oil (which have limited employment potential) and can be withdrawn. Diaspora remittances will continue to make a vital contribution to several SSA economies, facilitated by information and communications technology (ICT), although, as with FDI, not all countries are benefitting.

Certain conditions need to be met for a country to receive a high level of remittances. Key requirements are a sizeable expatriate population (preferably skilled and living in richer countries), a functioning banking system (both to facilitate and to measure financial flows) and, increasingly, an accommodating ICT environment, to speed up transfers and reduce their costs, which remain high in most parts of SSA. Countries with close links to the former leading colonial powers, the UK and France, are well represented in the remittance league.

The leading remittance recipients

Topping the SSA remittance stakes is Nigeria, by a large margin, with inflows rising by 11% to US$24.4bn in 2018—dwarfing FDI of US$2bn—and accounting for more than half of the regional total. Nigeria's dominant position stems from having the largest population in SSA (191m) and high levels of remittances per head. Ghana lies second on the list (with US$3.5bn in 2018), followed by Kenya (US$2.7bn), Senegal (US$2.4bn), the Democratic Republic of the Congo (DRC; US$1.8bn), Zimbabwe (US$1.7bn), Uganda (US$1.2bn), Mali (US$0.9bn), South Africa (US$0.9bn) and Togo (US$0.5bn).

In per capita terms, a slightly different picture emerges. Excluding four small island states (Cabo Verde, Comoros, São Tomé and Príncipe and Seychelles), the leading per capita recipient is Lesotho—on US$201 per head—because of large flows of migrant workers to South Africa. For the same reason eSwatini lies sixth in the per capita list (on US$106). As a result, South African remittance flows are negative on a net basis, unusually for SSA. Senegal comes second (on US$156 per head), followed by Nigeria (US$133), Ghana (US$128), the Gambia (US$112), eSwatini, Zimbabwe (US$104), Liberia (US$82), Togo (US$64) and Djibouti (US$61). Kenya lies in 11th place on US$58 per head. The top 10 countries in terms of remittances as a proportion of GDP are very similar, but South Sudan and Mali enter the list at the expense of Djibouti and eSwatini.

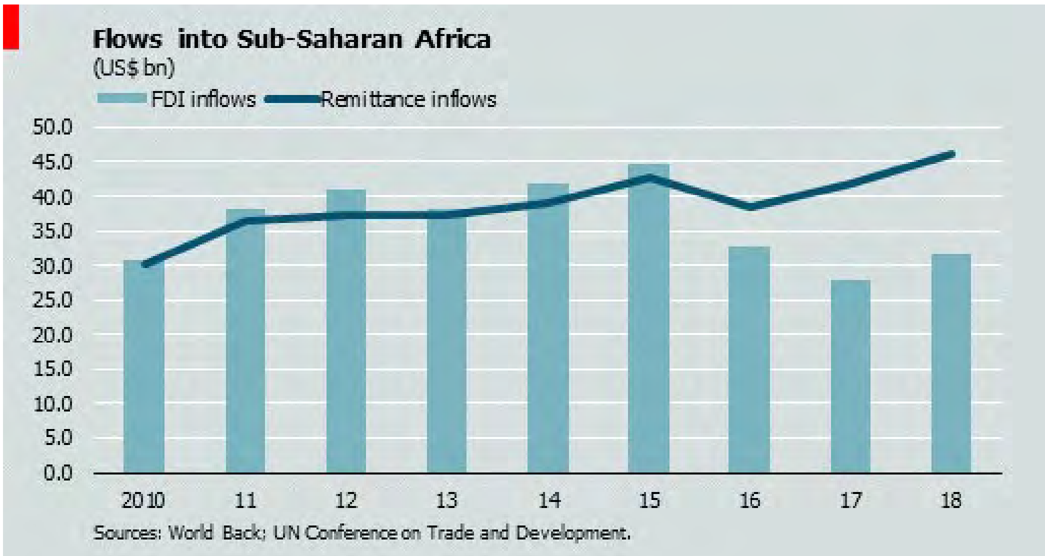
Remittances and stability

The evidence is not clear cut as to whether more stable countries, both in political and in economic terms—such as Ghana, Senegal and South Africa—tend to attract higher remittance flows. Strong remittance flows to Nigeria (which is less stable) and especially to the DRC and

Zimbabwe (which are both unstable) show that remittances are driven as much by necessity, as by opportunity. In Zimbabwe's case, remittances are a lifesaver for many households. The question of whether currency stability facilitates inflows is similarly uncertain. Senegal, Mali and Togo no doubt benefit from their mutual currency's fixed link to the euro, which gives greater certainty to senders and recipients of funds. The rand monetary zone (including eSwatini, Lesotho and Namibia) similarly benefits flows in southern Africa, despite the South African currency's volatility vis-à-vis the US dollar. From another perspective, strong flows to countries such as Nigeria and Ghana suggest that currency weakness is not always a major impediment to remittances, and can sometimes boost flows, because recipients gain more in local currency.

Correlations with FDI

A degree of correlation exists between the leading recipients of remittances and FDI but there are also outliers. Six countries feature in the top 10 for both remittances and FDI inflows—Nigeria, Ghana, Senegal, South Africa, Kenya and Uganda—and in all cases, except South Africa and Uganda, remittances exceeded FDI in 2018. Stronger in FDI but weaker in remittances are Congo, Mozambique, Tanzania and Ethiopia, with the latter suffering from weak, state-run banks and ICT firms. Planned reforms in Ethiopia, including the opening of closed sectors to private firms, could give a major boost to remittances, given its large expatriate population, especially in the US. Conversely, Mali, Senegal, Togo and Zimbabwe are weaker on FDI but stronger on remittances. As a qualification, however, measuring flows of both FDI and remittances in SSA is difficult and the data are subject to frequent revision.



To maximise the benefits, SSA governments should make efforts to facilitate remittances, in line with longer-standing policies to promote FDI. Action to boost remittances can be indirect, such as nurturing the emergence of a dependable and efficient financial and ICT framework, and also direct, as illustrated as Kenya's now-expired amnesty for repatriated funds, which gave a significant boost to remittance inflows in 2018. Senegal's decision to create parliamentary seats for the diaspora in the 2017 legislative election is also a potential remittance-booster, by giving expatriates a direct political stake in their home country. Remittance flows also face threats, especially tougher policies towards migrant workers in the key US market (the main source of remittances for Kenya, for example) and in some EU countries, such as Italy. Possible links between remittances and money-laundering are under-researched, but could cause problems in future. Despite some challenges, remittances will remain a key source of funding in SSA, bolstered by digital innovation.

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Djibouti profile - Timeline

8 May 2018

A chronology of key events:

GETTY IMAGES

825 - Islam introduced to the area.

French rule

1862 - France acquires the port of Obock.

1888 - French colony of Somaliland established over the region.

1892 - Djibouti becomes capital of French Somaliland.

1897 - Ethiopia acquires parts of Djibouti after signing a treaty with France.

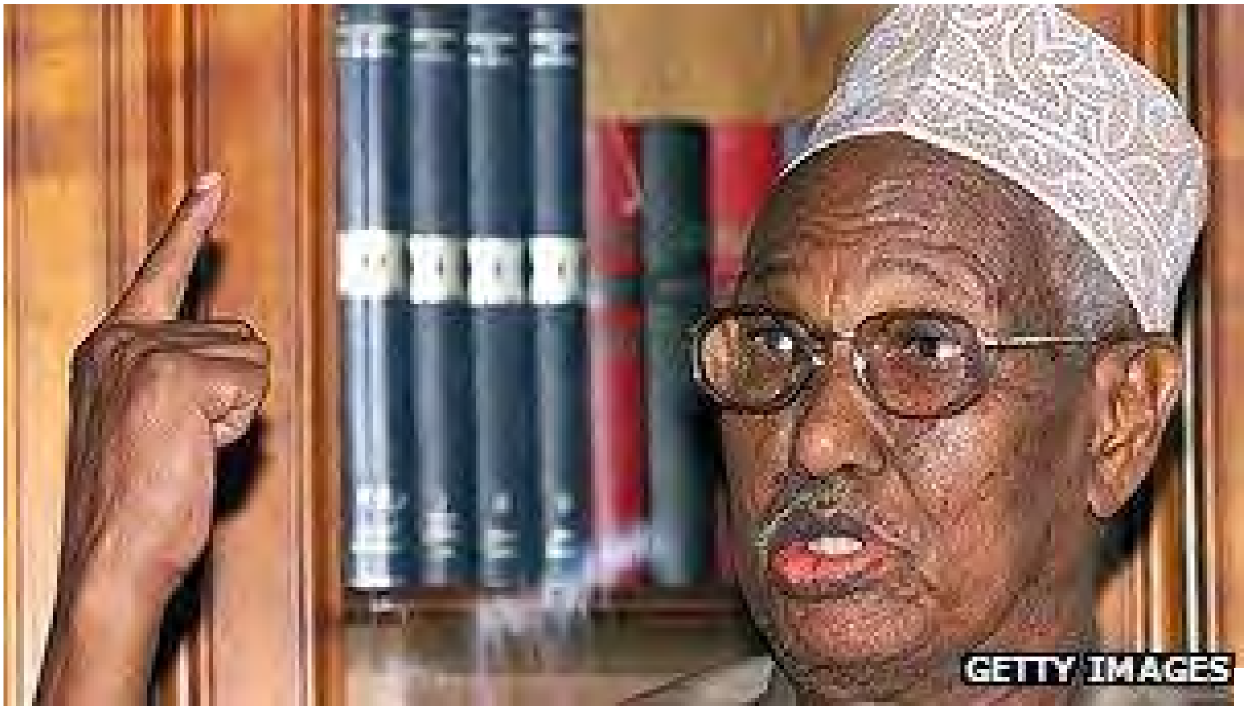
1917 - Railway connecting the port of Djibouti with the Ethiopian hinterland reaches Addis Ababa.

1946 - Djibouti made an overseas territory within the French Union with its own legislature and representation in the French parliament.

1958 - Djibouti votes to join the French Community.

Independence

1967 - Referendum takes place during which Afar people and Europeans vote to remain part of the French Community; French Somaliland renamed the French Territory of the Afars and the Issas.



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1977 - The French Territory of the Afars and the Issas becomes independent as Djibouti with Hassan Gouled Aptidon as president.

1979 - People's Progress Assembly party set up with a view to uniting the Afar and Issa peoples.

1981 - Djibouti becomes a one-party state with the People's Progress Assembly as the sole party.

1992 - A constitution allowing for a limited multiparty system adopted; fighting erupts between government troops and the Afar Front for the Restoration of Unity and Democracy (FRUD) in the northeast of the country.

Power-sharing agreement

1994 - The government and the main faction of FRUD sign a power-sharing agreement officially ending the civil war; the radical faction of FRUD continues to fight.

1995 - French Judge Bernard Borrel dies under mysterious circumstances in Djibouti. He was advising the Djibouti government, and reportedly investigating arms smuggling.

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1999 - President Aptidon announces that he will not run in the presidential election; Ismael Omar Guelleh elected president.

2000 February - The government and the radical faction of FRUD sign a peace agreement finally putting an end to the civil war.

2000 March - Former Prime Minister and leader of the radical faction of FRUD Ahmed Dini returns to Djibouti after nine years in exile.

2000 December - Coup attempt said to have been masterminded by sacked police chief General Yacin Yabeh Galab fails and Yacin charged with conspiracy and breaching state security.

2002 January - German warships and 1,000 sailors arrive in Djibouti to patrol shipping lanes in Red Sea area, in support of US actions in Afghanistan.

2002 September - 1992 law allowing only three other parties to compete with ruling party expires, paving way for full multi-party politics.

2002 September - Djibouti says it won't be used as a base for attacks against another country in the region. Some 900 US troops set up camp in support of US-led war on terror.

2003 January - Coalition supporting President Ismael Omar Gelleh - the Union for Presidential Majority - wins Djibouti's first free multi-party elections since independence in 1977.

Anti-immigrant drive

2003 September - Government begins drive to detain and expel illegal immigrants, thought to make up 15% of population.

2005 April- Presidential elections: Incumbent President Guelleh is the sole candidate.

2006 November - A UN report says several countries, including Djibouti, have flouted a 1992 arms embargo on Somalia by supplying the rival Islamist administration in Mogadishu. Djibouti denies the allegation.

2007 March-April- Drought declared in some inland areas. United Nations World Food Programme (WFP) says some 53,000 people could go without food rations unless funding is found.

GETTY IMAGES

2008 January - Djibouti begins legal battle with France in the International Court of Justice in The Hague over investigation into death of French judge Bernard Borrel.

2008 February - Ruling coalition wins all 65 seats in parliamentary elections, which are boycotted by the three main opposition parties.

Fighting with Eritrea

2008 June- Fighting breaks out between Djiboutian and Eritrean troops in the disputed Ras Doumeira border area. At least nine Djiboutian soldiers killed. US condemns Eritrean "aggression" but Eritrea denies launching an attack.

GETTY IMAGES

2009 December - UN Security Council approves tough sanctions against Eritrea for supplying weapons to opponents of the Somali government and refusing to resolve border dispute with Djibouti.

2010 April - Parliament approves constitutional amendment allowing president to run for a third term.

2010 June - Eritrea, Djibouti agree to resolve their border dispute peacefully.

Opposition tensions

2011 February - Thousands gather for rare protest demanding regime change. At least two people are killed in confrontation with police.

GETTY IMAGES

2011 April - Guelleh wins a third term as president in an election boycotted by the opposition.

2011 June-September - Horn of Africa hit by worst drought in 60 years.

2011 December - First consignment of troops from Djibouti arrives in Somali capital, Mogadishu, to bolster the African Union force there.

2012 February - IMF approves $14 million loan to boost Djibouti's drought-hit finances.

2013 February - Opposition groups contest parliamentary elections after their 2008 boycott. They reject the result, which gave the governing Union for the Presidential Majority 49 of 65 seats.

GETTY IMAGES

2014 May - Bomb blast in restaurant with several Western military personnel kills three, including two suicide bombers. Somali Islamist group al-Shabab claims responsibility.

2014 June - Djibouti suffers its fourth straight year of drought, a UN official says.

2015 December - Several people killed in clash with police in capital. Opposition accuses authorities of arresting supporters.

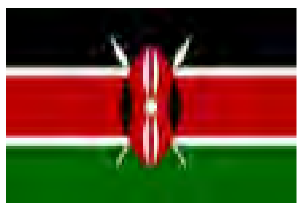
2016 April - President Ismail Omar Guelleh gains fourth term of office following elections, having previously said he would not run for the presidency again.

2016 July - The International Criminal Court says it has referred the governments of Djibouti and Uganda to the UN Security Council for failing to arrest Sudan's president, Omar al-Bashir.

2016 December - Djibouti says Saudi Arabia is to set up a military base in the country.

2017 June - Djibouti accuses Eritrea of sending troops into a disputed area on the border, following the withdrawal of Qatari peacekeepers.

2017 August - China formally opens its first overseas military base in Djibouti.



Kenya

Subject	**Page**

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U.S. Embassy in Kenya

Ambassador Kyle McCarter

Kyle McCarter was nominated by President Trump to be the U.S. Ambassador to Kenya and was confirmed on January 2, 2019.

Prior to his Nairobi assignment, Ambassador McCarter was a manufacturing entrepreneur in Lebanon, Illinois. He served eight years on the St. Clair County Board and six years on the O'Fallon Chamber of Commerce Board of Directors, including two years as President and four years as Chairman of the Economic Development Committee. He was a State Senator in the Illinois General Assembly from 2009-2019. He has a B.S. in Accounting from Oral Roberts University.

Ambassador McCarter is married and has two children.

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← KENYA

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U.S. Relations With Kenya

BILATERAL RELATIONS FACT SHEET

BUREAU OF AFRICAN AFFAIRS

Share

More information about Kenya is available on the Kenya Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-KENYA RELATIONS

The United States established diplomatic relations with Kenya in 1964, following its December 1963 independence from the United Kingdom. The United States and Kenya have enjoyed cordial relations and an enduring partnership since Kenya's independence. Relations became closer after Kenya's democratic transition of 2002 and subsequent improvements in civil liberties. Longstanding mutual interests in the region and wide-ranging cooperation on economic and security issues underpin a strong bilateral relationship. As one of East Africa's largest economies, Kenya is a growing business, financial, and transportation hub for the region, and U.S. investment in Kenya and bilateral trade are important elements of the U.S.-Kenya relationship. Ethnic-based political divisions, interference in key institutions, corruption, and impunity have posed challenges to Kenya's democracy. In the wake of widespread violence following the disputed 2007 presidential election, Kenyans adopted a new constitution in a national referendum in August 2010, which mandated devolution of some political authority and funding to Kenya's 47 counties. Kenya's 2013 and 2017 elections were more peaceful, though concerns remain about the independence and credibility of democratic institutions and the government's adherence to the rule of law.

U.S. Security Relationship with Kenya

The United States has a strategic interest in Kenya's security and stability, and that commitment is reflected in our partnership on regional and global security issues. The United States has four security assistance objectives in Kenya: 1) professionalize the Kenyan military forces; 2) increase Kenyan counterterrorism and border security capabilities; 3) increase maritime security awareness; and 4) improve peacekeeping capabilities. Our longstanding security assistance program is a cornerstone of the bilateral relationship

U.S. Assistance to Kenya

As an important developing partner in East Africa, Kenya is a significant recipient of U.S. foreign assistance. The United States seeks to advance its national security and economic prosperity interests by helping strengthen economic stability, security, health, education, environment, rule of law, and democratic governance in Kenya, as well as by countering violent extremism and combatting wildlife trafficking.

Bilateral Economic Relations

Kenya's diversified economy has produced 5-6 percent annual GDP growth over the last decade, and an increasing number of American companies have established their regional or Africa-wide headquarters in Nairobi. Kenya remains East Africa's largest and most important business, financial, and transportation hub, with 80 percent of East Africa's trade flowing through Mombasa Port. The United States was the third largest destination for Kenya's exports and the seventh largest source of its imports in 2017. The United States was the number one source of foreign tourist arrivals to Kenya in 2016 and 2017, with NY-Nairobi direct flights scheduled to begin October 28, 2018. U.S. private sector interest in Kenya remains robust with numerous American companies engaged in Kenya, especially in the technology, consumer services, banking, and finance sectors. Kenya enjoys preferential trade benefits under the African Growth and Opportunity Act, and in late 2018 the two countries launched a U.S.-Kenya Trade and

Investment Working Group to expand trade and investment. U.S. exports to Kenya include agricultural products, aircraft parts, and machinery. U.S. imports from Kenya include apparel, coffee, and tea. U.S. business investment is primarily in services, information technology, and the tourism industry. The United States also has signed trade and investment framework agreements with the East African Community and with the Common Market for Eastern and Southern Africa. Kenya is a member of both regional organizations.

Kenya's Membership in International Organizations

Kenya and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, World Bank, and World Trade Organization.

Bilateral Representation

The U.S. Ambassador to Kenya is Robert F. Godec. Other principal embassy officials are listed in the Department's Key Officers List.

Kenya maintains an **embassy** in the United States at 2249 R Street NW, Washington, DC 20008 (tel. 202-387-6101).

More information about Kenya is available from the Department of State and other sources, some of which are listed here:

CIA World Factbook Kenya Page
U.S. Embassy
USAID Kenya Page
History of U.S. Relations With Kenya
Office of the U.S. Trade Representative Country Page
U.S. Census Bureau Foreign Trade Statistics
Export.gov International Offices Page
Millennium Challenge Corporation: Kenya
Travel Information

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Country Report

Kenya

Generated on January 22nd 2020

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Kenya

Summary

Outlook for 2020-24

Data and charts

Summary

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Benedict Craven**

Forecast Closing Date: **January 8, 2020**

Political and economic outlook

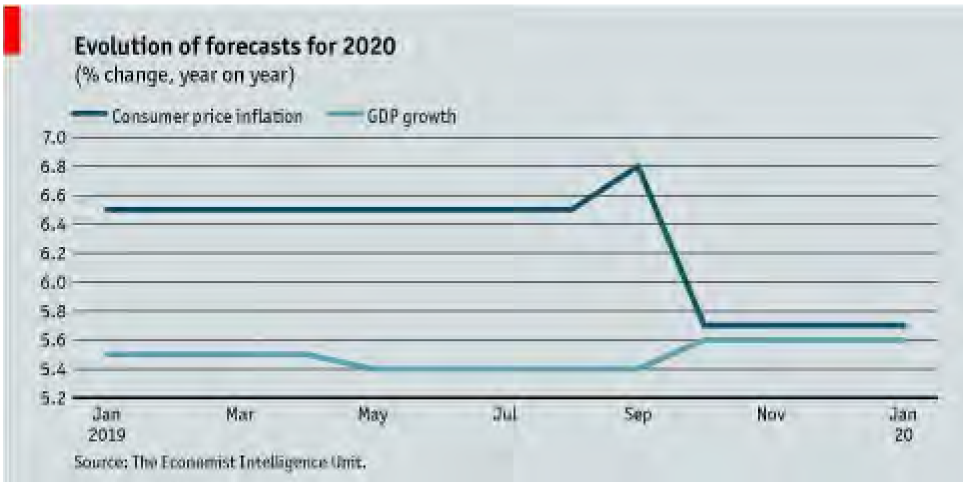
- The ruling Jubilee Party is beset by high-level divisions, but will be able to function reasonably effectively, with the president, Uhuru Kenyatta, being broadly able to pursue an anti-corruption agenda in spite of internal schisms.
- Tensions within both the Jubilee Party and the opposition, partly linked to the next election in 2022, may complicate policymaking and the fight against corruption, but they pose no immediate threat to stability.
- The president's "Big Four" agenda will shape policy during The Economist Intelligence Unit's 2020-24 forecast period. The goal of boosting manufacturing will be the hardest to realise, given the high-cost environment and competition from imports.
- The fiscal stimulus of recent years will be wound down gradually during the forecast period, helped by efforts to broaden the tax base and curb unnecessary spending. However, large budget deficits will remain throughout the forecast period.
- We expect real GDP growth to remain healthy, barring shocks, and to average 6% a year in 2020-24. Growth will be especially fast in 2024 when commercial oil exports begin.
- Inflation will rise in 2020, from an estimated 5.2% in 2019 to 5.7%, as the shilling depreciates. We expect it to average 6.2% a year in 2020-24, with rising demand pressures and higher global oil prices both playing a role.
- The current-account deficit will rise from an estimated 4% of GDP in 2019 to an annual average of 4.2% of GDP in 2020-23 as imports rise. As an oil export pipeline comes on stream in 2024, the shortfall will narrow to 3% of GDP that year.

Key indicators

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth (%)	5.3	5.6	5.7	6.0	6.1	6.6
Consumer price inflation (av; %)	5.2[c]	5.7	6.7	6.5	6.3	6.0
Government balance (% of GDP)[d]	-7.2	-6.0	-5.5	-5.1	-4.8	-3.8
Current-account balance (% of GDP)	-4.0	-4.1	-4.3	-4.2	-4.3	-3.0
Money market rate (av; %)	8.3	8.3	8.2	7.9	7.5	7.1
Exchange rate KSh:US$ (av)	102.0[c]	109.3	111.6	114.6	115.1	115.1

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Fiscal years (ending June 30th).

Market opportunities



Key changes since December 17th

- Third-quarter trade data for 2019 showed a steeper decline in imports than we had anticipated. We have adjusted our estimate for imports in 2019 accordingly, with minor knock-on impacts for imports in later years.
- The current-account deficit forecast for 2024 is now 3% of GDP, down from 3.1% previously.

The month ahead

- **January 27th—Monetary policy committee meeting of the Central Bank of Kenya (CBK):** We expect loosening in 2020, but there was a 50-basis-point cut in November 2019 and inflation rose in December. With fiscal policy being looser than targeted, the CBK may wait until there has been greater progress in reducing the deficit before acting.

Major risks to our forecast

Scenarios, Q4 2019	Probability	Impact	Intensity
Foreign companies and tourists are affected by terrorist acts	High	Very High	20
A lack of unity undermines the effectiveness of the government	High	High	16
Basic infrastructure suffers from poor management and lack of investment	High	High	16
Business transactions are undermined by endemic corruption	High	High	16
Firms and individuals fall victim to criminal activity	High	High	16

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2020-24

Political stability

The outlook for political stability is broadly positive, although the president, Uhuru Kenyatta, faces several interlinked challenges during the remainder of his time in office to 2022. These include advancing his "Big Four" agenda (food security, housing, health and manufacturing), cracking down on corruption and dealing with the ruling Jubilee Party's internal divisions. Mistrust between the ruling party and opposition had been a severe threat to political stability after Kenya's disputed election in 2017. Animosity has been assuaged since then, with both the president and the leader of the opposition Orange Democratic Movement (ODM), Raila Odinga, having agreed to a rapprochement based on the Building Bridges Initiative (BBI). Recommendations from the bipartisan exercise include diluting executive authority via the re-establishment of a post for prime minister to oversee parliamentary business. Other initiatives include diversifying the cabinet by including appointments from outside the legislature and formalising the role of leader of the opposition. Amending the constitution in this way may require a referendum, held before the next election in 2022. Kenya's polling season is still likely to be a period of deep uncertainty or even violence. However, the party political landscape does not indicate extraordinary levels of tension, as was the case in the 2007-08 post-election crisis, when hundreds were killed, or in 2017 when the result was fiercely contested.

Divisions within the Jubilee Party and ODM are poised to widen ahead of the vote, however, as respective allies of the two party leaders were caught off-guard by the sudden bipartisanship, which Mr Kenyatta increasingly considers his legacy. In particular, the deputy president, William Ruto, has been an outspoken sceptic of BBI, which he regards as conceding too much to the opposition, and now probably fears that he will not be the Jubilee Party's presidential nominee in 2022 when Mr Kenyatta stands down after two terms. The re-establishment of the post of prime minister also opens the way for Mr Kenyatta to continue in this role should he select the "right" candidate (possibly even Mr Odinga). Should Mr Kenyatta choose to announce a successor other than Mr Ruto, many of the deputy president's allies could choose to join the opposition. A formal Jubilee Party split seems unlikely, but divisions will complicate the fight against corruption, which some of Mr Ruto's allies view as being politically motivated.

Kenya's longstanding vulnerability to terror attacks carried out by Al-Shabab, a Somalia-based jihadi network, will periodically flare up despite the heavy presence of security forces in the north east. Apparently caught off-guard, a military base housing US military personnel was subject to a deadly attack in January 2020 by Al-Shabab militants; the US has stepped up airborne assaults against Al-Shabab targets in Somalia and the incident was likely a reprisal. As the internationally supported African Union (AU) campaign to oust the group from Somalia continues, Kenya, which borders Somalia, is home to logistics and operations bases and has troops on the front line, will continue to be a leading target for Al-Shabab terror cells, which have proven capable of striking across the country, including in the capital, Nairobi.

Election watch

The controversial 2017 election delivered a working majority for the Jubilee Party, but left it well short of the two-thirds threshold needed to change the constitution. Attention is turning to the 2022 election, when Mr Ruto will seek the Jubilee Party's presidential nomination—in line with an informal agreement with Mr Kenyatta—but obstacles are emerging. In one mooted scenario, Mr Odinga, Mr Kenyatta's supporters and Gideon Moi (the son of a former president) would align themselves against Mr Ruto, but many other configurations are possible. A more pressing concern, however, is to rectify the failings of the dysfunctional Independent Electoral and Boundaries Commission, to advance Kenya's democracy and reduce the risk of another fraught contest in 2022.

International relations

Foreign policy will be driven by economic interests, especially the maintenance of close relations with multilateral donors and the advancement of regional integration within the East African Community (EAC). Intentions in this regard are backed by US$2bn of funding for capital investment from the African Development Bank (AfDB) up to 2022. Kenya will maintain close ties (including military co-operation) with the US and the UK, as highlighted by ongoing security threats from Al-Shabab, but prioritise relations with key lenders such as China and India. EAC-EU relations will be high on the agenda, owing to divisions over a planned economic partnership agreement (EPA) that is critical for Kenya to have continued tariff-free access to EU countries for its exports. Kenya will remain a regional leader, albeit faced with a low-level trade rivalry with Tanzania, and the country's military intervention in Somalia will face logistical challenges and elevate the risk of terrorist attacks in Kenya by Somalia's main Islamist insurgent group, al-Shabab.

Policy trends

The main policy challenge in the medium term will be to alleviate infrastructure deficiencies and skills shortages. Major investments in the transport and energy networks, some in the form of public-private partnerships (PPPs), alongside regulatory and other reforms, will lead to gradual improvements. The government will also prioritise trade liberalisation and closer integration within the EAC as part of a drive to deepen integration into the regional market. Expanding Kenya's relatively underdeveloped manufacturing sector—through measures such as establishing special economic zones (SEZs)—is another policy objective, together with food security, healthcare and housing, according to the president's Big Four agenda.

Policymaking and implementation will, however, remain vulnerable to risks such as drought, insecurity, corruption and political squabbling. It is also unlikely that Kenya will have a policy anchor in the form of an IMF programme over 2020-24, with talks dragging on. As economic growth will be quick, the motivation to adopt potentially politically painful reforms under a loan agreement will be absent, even though the lack of one will inhibit Kenya's access to international capital markets.

Fiscal policy

Fiscal consolidation is the policy mantra, and monetary easing will allow for a wind-down of the stimulus used in recent years. However, like the government, The Economist Intelligence Unit expects progress to be slow. The thrust of the next medium-term plan (to be published in early 2020) will probably focus—as it has in recent years—on the unattained goal of reducing spending on the civil service and freeing up resources for capital investment, or at least to shield that side of the budget from spending cuts. Such reforms were dodged in 2019/20 (July-June), and with an election in late 2022 (public-sector reform is politically charged) tough measures will probably be postponed until the end of the forecast period. Capital spending will be dwarfed by the recurrent cost of the public sector; salaries alone account for about 18% of the total budget in 2019/20, compared with 22% for the whole capital budget. Spending as a proportion of GDP is expected to decline at a gentler pace than officially projected because of the size and political unwieldiness of this spending category.

On the revenue side, the government will try to balance out the interests of businesses and consumers against the wider policy of fiscal consolidation. Income-tax reform will probably be unveiled in 2020/21; official projections envisage a jump in the revenue/GDP ratio in that fiscal year. Some sectors will be affected by a reduction in fiscal incentives, but the burden is to be shared by individuals; tax rises on remittances and personal income are both probable. The bill is likely to be controversial, and parliament would probably press for a watered-down version of it so close to national elections. Again, this means that revenue as a proportion of GDP will probably rise only slowly.

Assuming that civil-service reform is fairly limited ahead of the 2022 election and income-tax changes are watered down, we expect the budget deficit to narrow gently from an estimated 6.8% of GDP in 2019/20 to a still-sizeable 5.9% of GDP in 2021/22. We only expect the budget deficit to shrink to below 5% by 2023/24, underscoring serious obstacles to fiscal discipline. With external finance being cheaper than domestic borrowing, Kenya will look to foreign borrowing as much as possible for infrastructure projects. The remainder of the deficit will be financed domestically, at fairly high real interest rates. Gross public debt as a share of GDP will climb by more than 7 percentage points, to 65.5%, over the forecast period.

Monetary policy

Monetary policy will undergo a planned shift to a formal inflation-targeting framework from the current, informal target range (of 2.5-7.5%). In November the Central Bank of Kenya (CBK) cut its benchmark interest rate by 50 basis points, to 8.5%, on the back of moderating inflation, easier global liquidity conditions and the removal that month of a lending-rate cap. The controversial ceiling on bank lending rates at 400 basis points above the benchmark rate, introduced in September 2016, was repealed as a result of presidential opposition to it. Counterintuitively, average lending rates are likely to rise slightly despite monetary loosening as a result of its abrogation, and remain sticky downward as banks rationally charge higher risk premiums to small and medium-sized enterprises (SMEs). In 2020-24, and with inflation within range, there will be scope for continued loosening of the policy rate, encouraged by a tighter fiscal stance, which will eventually see lending rates lessen.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
OECD GDP	1.6	1.5	1.8	1.9	1.8	2.0
World GDP	2.3	2.4	2.8	2.9	2.8	2.9
World trade	1.5	2.3	3.6	3.7	3.7	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	1.6	1.9	2.1	1.8	1.8
OECD CPI	1.9	1.8	2.0	2.2	2.1	2.0
Manufactures (measured in US$)	-0.1	1.9	4.0	4.1	3.5	3.1
Oil (Brent; US$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US$)	-6.6	0.8	3.9	1.8	0.9	2.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.2	1.5	1.5	1.8	2.2	2.3
Exchange rate KSh:US$ (av)	101.99	109.30	111.60	114.56	115.10	115.10
Exchange rate US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24

Economic growth

The outlook for 2020-24 is broadly favourable, with growth forecast to average 6% a year during the period. This compares with an estimated rate of 5.3% in 2019. A boost will come from the repealing of the rate cap, which, despite raising average lending rates, will increase loan approvals and so enhance credit extension to SMEs. A subsequent expansion in consumer demand and business invest-ment will help to power an improved economic outlook, with monetary stimulus working to keep economic growth elevated, despite a slowdown in public demand. Kenya's nascent oilfields (with 560m barrels in proven and probable reserves) will also advance towards commercial exports. A final investment decision on an outbound pipeline is expected in 2020, which we expect to become operational in 2024. Commercial oil exports will drive the highest growth rate of the forecast period that year, of 6.6%.

However, structural deficiencies, such as infrastructure bottlenecks and skills shortages, will persist, as will Kenya's dependence on rain-fed agriculture and the perennial risk of drought. Serious unrest around the 2022 election is also a notable downside risk. Kenya's economic performance is nonetheless poised to remain brisk and among the strongest in Africa.

Economic growth

%	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
GDP	5.3	5.6	5.7	6.0	6.1	6.6
Private consumption	5.9	6.5	6.2	6.3	6.4	5.6
Government consumption	7.0	4.0	3.2	3.6	4.0	4.5
Gross fixed investment	6.5	5.0	5.6	5.9	6.5	5.9
Exports of goods & services	4.7	4.9	5.5	6.2	4.8	10.1
Imports of goods & services	2.2	6.5	6.0	6.5	6.0	5.2
Domestic demand	6.3	6.0	5.8	6.1	6.2	5.8
Agriculture	4.1	5.6	5.0	5.3	5.3	4.1
Industry	5.3	7.0	7.8	9.0	7.0	9.9
Services	5.9	5.0	5.2	5.0	6.0	6.2

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

From an annual average inflation of 5.2% in 2019, expected depreciation of the Kenya shilling in 2020 will push inflation up to an average of 5.7%. Oil prices are expected to be low that year, but to rise steadily in 2021-23, directly raising consumer prices and weakening the shilling as terms of trade deteriorate; inflation will be higher over those years, at an average of 6.5%. This is close to Kenya's long-term average. Inflation will calm to an average of 6% in 2024 as oil exports begin and the shilling stabilises.

Exchange rates

The trade-weighted real effective exchange rate (REER) has been appreciating in recent years, with inflation in Kenya higher than in its main trading partners. A decline in international competitiveness has already caused earnings in several price-sensitive export categories to fall, although remittance inflows during the December festive season caused nominal appreciation. A correction appears inevitable, given Kenya's large external imbalance, and is forecast for 2020 as the global economy slows and remittance inflows subside, with the currency dropping from an average of KSh102:US$1 in 2019 to KSh109.3:US$1. This will allow Kenya to regain some competitiveness in REER terms. Currency depreciation will continue at a gentler pace to 2023, reflecting an ongoing external deficit, retreating to an average of KSh115.1:US$1. In 2024 the exchange rate will level off as oil exports begin.

External sector

Goods export earnings will rise in 2020—after an estimated fall in 2019—with real depreciation of the shilling being an aid to export competitiveness. Following this, expansion of the agricultural sector will underpin healthy export growth in 2021-23. Oil exports through a planned pipeline to the coastal port of Mombasa are expected to come online by 2024, following which an oil-led export boom will commence. The full impact will be seen in subsequent years, but earnings are nonetheless forecast to jump that year.

Import growth will be low in 2020, with oil prices more or less steady against 2019, but will recover from an estimated contraction as consumer demand and business investment pick up. As oil prices rise and economic performance accelerates, the rate of import growth will quicken in 2021-24. The nascent oil industry, in particular, will suck in high-cost capital equipment.

Kenya runs a surplus on the services balance, which reflects tourism revenue, although competition from other destinations and fears about terrorism will cause this to fall as a proportion of GDP over the forecast period. The primary income balance is in deficit, and will remain so, reflecting debt-servicing and repatriation of returns on foreign direct investment (FDI). The secondary income balance will remain in fairly healthy surplus, reflecting remittances from Kenyans living abroad, although these inflows will decline as a proportion of GDP in 2020 as the global economy slows.

Overall, in 2020 the current-account deficit as a share of GDP will widen only slightly from 2019 levels, at 4.1%, with both imports and exports rising slowly. The deficit will then widen to an annual average of 4.3% of GDP in 2021-23 as world oil prices increase. Following the commencement of commercial oil exports, the shortfall will shrink to 3% of GDP in 2024. To put this in context, it will be the smallest shortfall in terms of GDP since 2007. The current-account deficit will be financed mainly by both short- and long-term external debt inflows, but also by FDI.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth	5.3	5.6	5.7	6.0	6.1	6.6
Industrial production growth	5.3	7.0	7.8	9.0	7.0	9.9
Gross agricultural production growth	4.1	5.6	5.0	5.3	5.3	4.1
Consumer price inflation (av)	5.2[c]	5.7	6.7	6.5	6.3	6.0
Consumer price inflation (end-period)	5.4[c]	6.1	6.6	6.4	6.1	5.7
Lending rate (av)	12.3	12.9	12.7	12.5	12.4	12.1
Government balance (% of GDP)[d]	-7.2	-6.0	-5.5	-5.1	-4.8	-3.8
Exports of goods fob (US$ bn)	5.9	6.2	6.7	7.5	7.8	9.8
Imports of goods fob (US$ bn)	16.2	16.5	17.9	19.0	20.4	21.5
Current-account balance (US$ bn)	-3.9	-4.1	-4.8	-5.1	-5.9	-4.5
Current-account balance (% of GDP)	-4.0	-4.1	-4.3	-4.2	-4.3	-3.0
External debt (end-period; US$ bn)	35.6	39.8	43.5	47.4	51.2	53.0
Exchange rate KSh:US$ (av)	101.99[c]	109.30	111.60	114.56	115.10	115.10
Exchange rate KSh:US$ (end-period)	101.34[c]	111.04	112.50	114.90	115.70	115.00
Exchange rate KSh:¥100 (av)	92.36[c]	99.32	102.64	109.23	114.57	119.80
Exchange rate KSh:€ (end-period)	116.03[c]	127.70	135.00	140.75	144.05	143.75

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Fiscal years (ending June 30th).

Data and charts

Annual data and forecast

	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[c]	2021[c]
GDP							
Nominal GDP (US$ m)	64,007	69,189	78,757	87,906	96,520	100,275	110,425
Nominal GDP (KSh bn)	6,284.2	7,023.0	8,144.4	8,905.0	9,844.2	10,960.1	12,323.4
Real GDP growth (%)	5.7	5.9	4.9	6.3	5.3	5.6	5.7
Expenditure on GDP (% real change)							
Private consumption	5.2	4.8	7.6	5.9	5.9	6.5	6.2
Government consumption	11.5	5.6	5.1	1.0	7.0	4.0	3.2
Gross fixed investment	6.6	-9.2	6.4	4.6	6.5	5.0	5.6
Exports of goods & services	6.2	-2.2	-6.8	4.0	4.7	4.9	5.5
Imports of goods & services	1.2	-3.4	8.7	2.6	2.2	6.5	6.0
Origin of GDP (% real change)							
Agriculture	5.3	4.7	1.9	6.4	4.1	5.6	5.0
Industry	7.3	5.9	3.8	5.3	5.3	7.0	7.8
Services	6.0	6.8	6.5	6.8	5.9	5.0	5.2
Population and income							
Population (m)	47.9	49.1	50.2	51.4	52.6	53.8	55.0
GDP per head (US$ at PPP)	2,988	3,122	3,258	3,468	3,657	3,845	4,051
Fiscal indicators (% of GDP)							
Central government revenue[d]	19.0	18.8	18.8	17.8	18.3	18.7	19.2
Central government expenditure	27.2	26.5	27.8	24.8	25.5	24.7	24.6
Central government balance[d]	-8.2	-7.7	-9.0	-7.0	-7.2	-6.0	-5.5
Public debt	45.0	51.5	54.1	56.6	59.0	61.9	64.1
Prices and financial indicators							
Exchange rate KSh:US$ (end-period)	102.31	102.49	103.23	101.85	101.34[a]	111.04	112.50
Exchange rate KSh:€ (end-period)	111.39	108.03	123.81	116.61	112.99[a]	126.03	133.31
Consumer prices (end-period; %)	8.0	6.4	4.5	5.7	5.4[a]	6.1	6.6
Stock of money M1 (% change)	8.5	28.9	19.4	10.4	11.7	15.0	16.7
Stock of money M2 (% change)	12.4	5.2	5.2	9.3	10.5	12.4	14.7
Lending interest rate (av; %)	16.1	16.6	13.7	13.1[b]	12.3	12.9	12.7
Current account (US$ m)							
Trade balance	-8,375	-7,666	-10,202	-10,237	-10,349	-10,328	-11,125
Goods: exports fob	5,982	5,747	5,792	6,105	5,862	6,217	6,742
Goods: imports fob	-14,357	-13,413	-15,994	-16,342	-16,211	-16,545	-17,867
Services balance	1,318	1,433	1,556	1,613	1,980	2,150	1,542
Primary income balance	-684	-386	-675	-728	-669	-816	-790
Secondary income balance	3,453	3,230	4,448	5,030	5,160	4,887	5,581
Current-account balance	-4,289	-3,389	-4,873	-4,322	-3,878	-4,107	-4,791
External debt (US$ m)							
Debt stock	19,767	21,706	26,834	31,510	35,609	39,796	43,491
Debt service paid	816	955	1,462	2,630	3,804	3,528	3,844
Principal repayments	413	421	706	1,529	2,650	2,099	2,206
Interest	403	534	756	1,101	1,153	1,429	1,638
International reserves (US$ m)							
Total international reserves	7,548	7,601	7,354	8,197	9,514	9,246	10,097

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Fiscal years (ending June 30th).

Source: IMF, International Financial Statistics.

Quarterly data

	2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (KSh bn)								
Revenue & grants	350.1	443.7	369.6	411.2	393.2	501.0	424.0	n/a
Expenditure & net lending	556.6	626.8	450.6	621.9	571.9	745.1	544.6	n/a
Balance	-206.5	-183.1	-81.0	-210.7	-178.7	-244.1	-120.6	n/a
Prices								
Consumer prices (2010=100)	176.9	182.4	181.3	181.4	184.7	193.2	190.4	n/a
Consumer prices (% change, year on year)	4.5	4.0	4.7	5.6	4.4	5.9	5.0	n/a
Financial indicators								
Exchange rate KSh:US$ (av)	101.83	100.76	100.71	101.91	100.73	101.30	103.42	102.52
Exchange rate KSh:US$ (end-period)	100.85	101.05	100.96	101.85	100.75	102.30	103.89	101.34
Deposit rate (av; %)	8.50	8.46	8.30	7.90	7.68	n/a	n/a	n/a
Lending rate (av; %)	13.61	13.24	12.85	12.56	12.49	n/a	n/a	n/a
Treasury-bill rate (av; %)	8.03	7.94	7.66	7.42	7.10	7.16	n/a	n/a
Stockmarket NSE 20 (1996=100)	3,845	3,286	2,876	2,834	2,846	2,633	2,432	2,654
Stockmarket index (% change, year on year)	23.5	-8.9	-23.3	-23.7	-26.0	-19.9	-15.4	-6.3
Foreign trade (KSh bn)								
Exports fob	161.7	158.2	150.6	142.3	156.9	146.4	146.2	n/a
Imports cif	438.5	460.6	432.3	426.5	421.2	449.9	411.3	n/a
Trade balance	-276.8	-302.4	-281.7	-284.2	-264.3	-303.5	-265.1	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	9,373	8,964	8,571	8,196	8,545	9,201	9,549	n/a

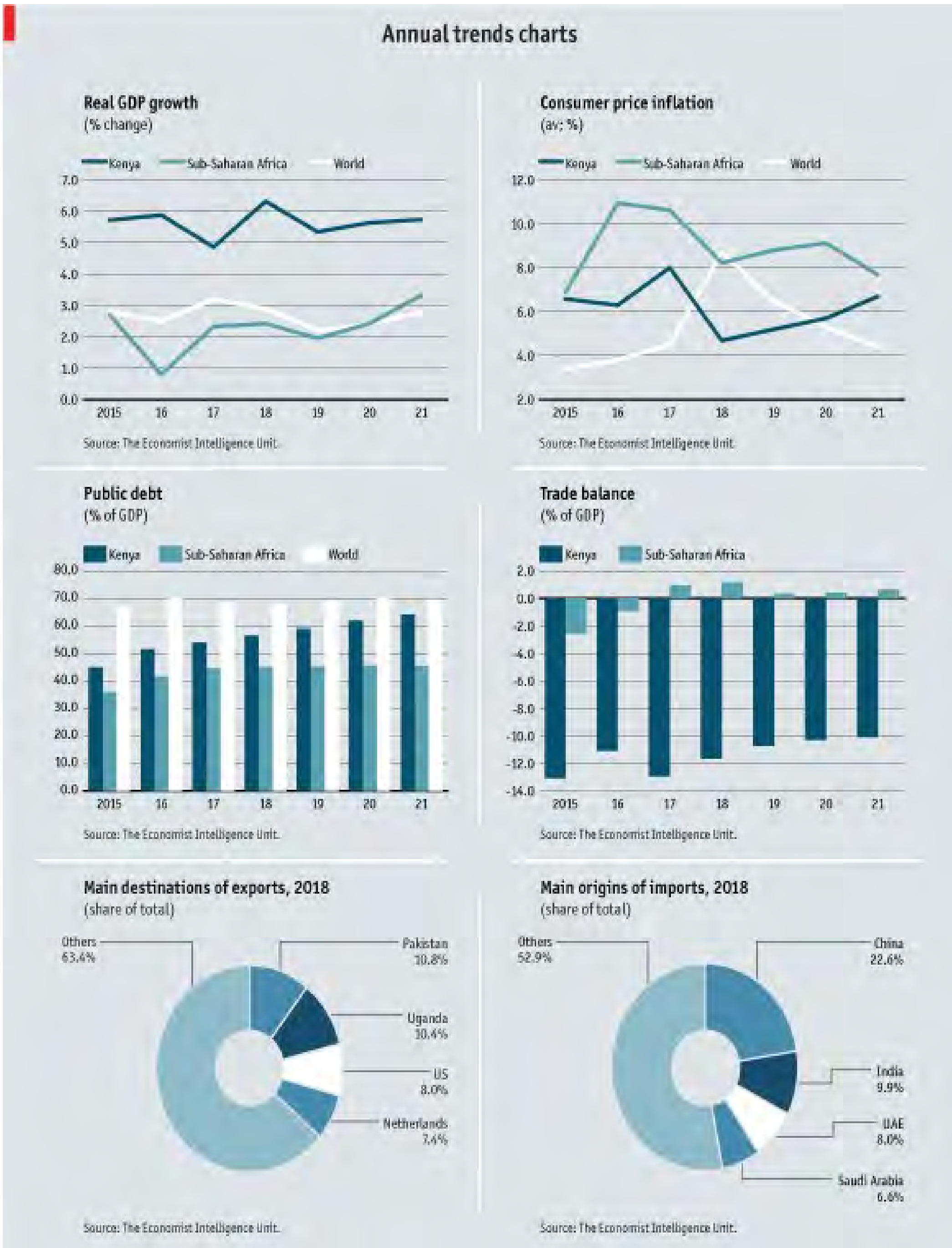
Sources: IMF, International Financial Statistics; Central Bank of Kenya, Monthly Economic Review; Bloomberg.

Monthly data

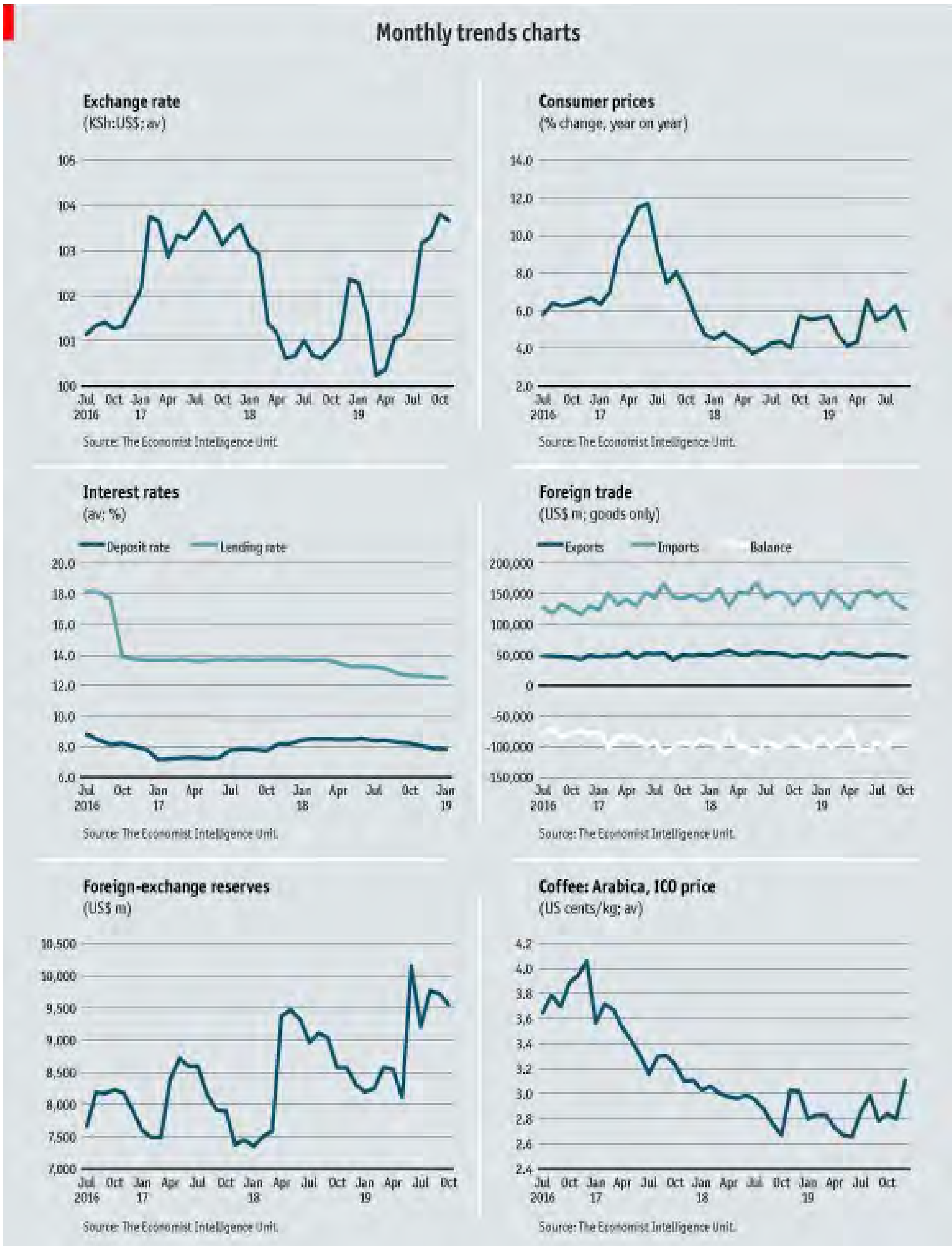
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate KSh:US$ (av)												
2017	103.75	103.64	102.85	103.33	103.26	103.49	103.88	103.56	103.12	103.39	103.57	103.10
2018	102.92	101.40	101.18	100.61	100.66	101.00	100.67	100.61	100.83	101.08	102.36	102.29
2019	101.58	100.23	100.36	101.07	101.15	101.69	103.16	103.30	103.80	103.67	n/a	n/a
Exchange rate KSh:US$ (end-period)												
2017	103.96	103.34	103.00	103.22	103.38	103.71	103.91	103.14	103.25	103.69	103.25	103.23
2018	102.36	101.62	100.85	100.36	101.48	101.05	100.41	100.65	100.96	101.85	102.54	101.85
2019	100.89	100.09	100.75	101.38	101.36	102.30	104.21	103.55	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	21.3	22.7	19.5	17.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	5.2	5.4	6.4	7.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (end-period; %)												
2017	7.2	7.3	7.3	7.2	7.3	7.8	7.8	7.8	7.7	8.2	8.2	8.4
2018	8.5	8.5	8.5	8.5	8.5	8.4	8.4	8.3	8.2	8.0	7.9	7.8
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (end-period; %)												
2017	13.7	13.7	13.6	13.6	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.6
2018	13.7	13.7	13.5	13.2	13.3	13.2	13.1	12.8	12.7	12.6	12.6	12.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stockmarket NSE 20 (1996=100)												
2017	2,794	2,995	3,113	3,158	3,441	3,607	3,798	4,027	3,751	3,730	3,805	3,712
2018	3,737	3,751	3,845	3,735	3,333	3,286	3,297	3,203	2,876	2,810	2,797	2,834
2019	2,958	2,894	2,846	2,797	2,677	2,633	2,628	2,468	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	7.0	9.3	10.3	11.5	11.7	9.2	7.5	8.0	7.1	5.7	4.7	4.5
2018	4.8	4.5	4.2	3.7	4.0	4.3	4.4	4.0	5.7	5.5	5.6	5.7
2019	4.7	4.1	4.4	6.6	5.5	5.7	6.3	5.0	n/a	n/a	n/a	n/a
Goods exports fob (KSh bn)												
2017	48.8	48.0	54.1	44.8	52.7	51.6	52.9	41.7	50.4	49.1	50.9	49.3
2018	53.4	57.3	51.0	50.0	55.3	52.9	52.9	51.0	46.8	50.0	48.3	44.0
2019	53.3	50.9	52.7	48.8	46.4	51.1	50.2	49.6	46.3	n/a	n/a	n/a
Goods imports cif (KSh bn)												
2017	150.7	130.8	141.1	129.1	151.4	143.0	165.6	144.3	141.8	147.9	138.2	141.8
2018	157.5	128.9	152.0	150.1	168.0	142.5	152.7	149.8	129.8	149.3	150.5	126.7
2019	155.1	141.3	124.9	150.4	154.9	144.6	153.6	132.8	124.9	n/a	n/a	n/a
Trade balance fob-cif (KSh bn)												
2017	-101.9	-82.9	-87.1	-84.3	-98.8	-91.4	-112.7	-102.6	-91.4	-98.8	-87.3	-92.5
2018	-104.1	-71.7	-101.0	-100.1	-112.7	-89.6	-99.8	-98.8	-83.0	-99.4	-102.2	-82.7
2019	-101.8	-90.4	-72.2	-101.6	-108.4	-93.5	-103.4	-83.2	-78.6	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2017	7,488	7,487	8,390	8,720	8,591	8,597	8,146	7,912	7,900	7,378	7,451	7,353
2018	7,506	7,589	9,373	9,467	9,316	8,964	9,109	9,039	8,571	8,570	8,310	8,196
2019	8,251	8,577	8,545	8,112	10,148	9,201	9,764	9,718	9,549	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

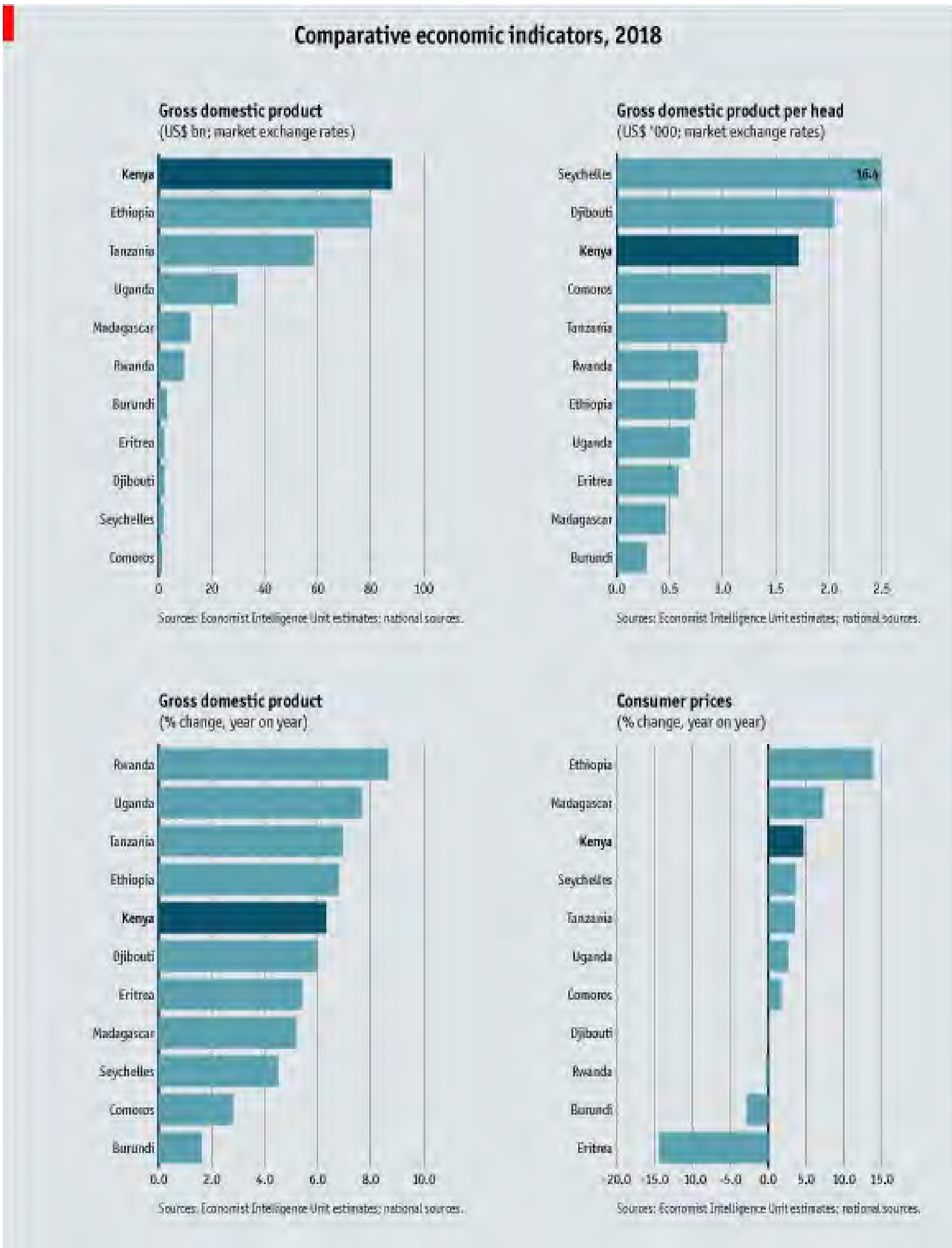
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

569,259 sq km

Population

47.6m (2019, Kenya National Bureau of Statistics, KNBS)

Main towns

Population in 2019; KNBS

Nairobi (capital): 4.4m

Kiambu: 2.4m

Nakuru: 2.2m

Mombasa: 1.3m

Climate

Tropical

Weather in Nairobi (altitude 1,820 metres)

Hottest month, February, 13-28°C; coldest month, July, 11-23°C; driest month, August, 24 mm average rainfall; wettest month, April, 266 mm average rainfall

Languages

English, Kiswahili and more than 40 local ethnic languages

Religion

Christian (80%), Muslim (10%), other (10%)

Measures

Metric system

Currency

Kenya shilling (KSh) = 100 cents; KSh101.99:US$1 (2019 average)

Fiscal year

July 1st-June 30th

Time

3 hours ahead of GMT

Public holidays

January 1st; Good Friday; Easter Monday; May 1st; June 1st; Eid al-Fitr; Christmas holiday, December 25th-26th

Political structure

Official name

Republic of Kenya

Form of state

Unitary republic

Legal system

Based on English common law and the 1963 constitution; a new draft constitution was approved in a referendum in August 2010 and came into force in 2013

National legislature

The National Assembly (lower house, 349 seats) and the Senate (upper house, 67 seats) were elected in August 2017; a multiparty system was introduced in 1991

National elections

Presidential and parliamentary elections scheduled to be held in August 2022

Head of state

President, directly elected; a candidate must cross the 50% threshold in a first round of voting (and secure at least 25% of the vote in more than half of the 47 counties) to secure victory; otherwise, the two best-placed candidates must contest a second round

National government

The Jubilee Party secured 171 seats in the 349-seat National Assembly, leaving it four short of an outright majority, but it will easily cross the threshold with the support of allies

Political parties in parliament

Jubilee Party, Orange Democratic Movement (ODM), Wiper Democratic Movement (WDM), Amani National Congress (ANC), Forum for the Restoration of Democracy-Kenya (Ford-Kenya), Kenya African National Union, Economic Freedom Party, Maendeleo Chap Chap Party, Party of Development and Reforms, Chama Cha Mashinani, Kenya National Congress, Kenya People's Party, Peoples Democratic Party, Chama Cha Uzalendo, Muungano Party, New Democrats, Party of National Unity, Democratic Party, Frontier Alliance Party, National Agenda Party. The Jubilee Party has the most seats (171) in the National Assembly. The National Super Alliance, which comprises ODM, WDM, ANC and Ford-Kenya, has the second-largest number of seats (126) and is the official opposition

National government

President: Uhuru Kenyatta

Deputy president: William Ruto

Key ministers

Agriculture & irrigation: Mwangi Kiunjuri

Defence: Raychelle Omamo

Devolution & arid lands: Eugene Wamalwa

East African Community: Peter Munya

Education: Amina Mohamed

Energy: Charles Keter

Environment & forestry: Keriaki Tobiko

Foreign affairs: Monica Juma

Health: Sicily Kariuki

Industrialisation & enterprise development: Adan Mohammed

Information, communication & technology: Joe Mucheru

Interior & government co-ordination: Fred Matiangi

Land, housing & urban development: Farida Karoni

Mining & petroleum: John Munyes

National Treasury: Ukur Yatani

Public service: Margaret Kobia

Sports & heritage: Rashid Achesa Mohammed

Tourism: Najib Balala

Transport, infrastructure & housing: James Macharia

Central bank governor

Patrick Njoroge

Recent analysis

Generated on January 22nd 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Conflicts in Africa set to intensify in 2020

January 14, 2020: Political stability

Event

In early January data from the Armed Conflict Location & Event Data Project (ACLED, a US-based non-government organisation) showed that violence in Africa escalated in 2019.

Analysis

The security situation deteriorated across significant parts of Africa in 2019, which is in line with a general rise in protests and social unrest already noted by The Economist Intelligence Unit across the continent over the same period. ACLED recorded 12,053 violent incidents (including bombings, violence against civilians and battles) in Africa between January 2019 and the start of 2020, with 29,407 fatalities reported. That compares with the 11,461 reported incidents involving 27,858 deaths that ACLED recorded in Africa during the same period of the previous year. The rise in both violent incidents and related deaths in 2019 implies that conflicts in different parts of the continent will intensify in early 2020, as both non-state actors (such as the Nigerian jihadi group Boko Haram) and foreign powers (such as Turkey) step up their operations on the continent.

Violence occurred across all regions of Africa in late 2019 and this geographic spread will make it difficult to concentrate diplomatic efforts and peacekeeping resources effectively in 2020. In south-western Africa, post-election tensions in Mozambique resulted in incidents of violence between the ruling party, Frelimo, and its rival, Renamo. The security crisis in the Sahel has worsened, causing the temporary postponement of a meeting between the presidents of the G5 Sahel group of countries (a regional alliance fighting militant groups in West and Central Africa consisting of Mali, Niger, Burkina Faso, Mauritania and Chad) and France until January 13th 2020. In East Africa, the Somali militant group al-Shabab launched three terrorist attacks across the border into neighbouring Kenya in January 2020, one of which killed three US Defence Department personnel (including a US soldier). In nearby Ethiopia, security remains extremely fragile despite an ongoing loosening of previously tight restrictions by the central government. In North Africa, fighting in Libya seems likely to intensify as foreign powers increase their involvement in the country's civil war. The deepening involvement of Middle Eastern powers in entrenched African conflicts looks set to be another enduring theme in 2020, especially in the Horn of Africa and Libya.

Impact on the forecast

The data showing a rise in violent incidents and deaths in 2019 support our forecast that conflicts will intensify across Africa in 2020, in line with increased social unrest in many countries.

President reshuffles cabinet

January 16, 2020: Political stability

Event

The president, Uhuru Kenyatta, carried out a mini-cabinet reshuffle on January 14th, sacking the agriculture minister, Mwangi Kiunjuri, and confirming the acting finance minister, Ukur Yatani, as a permanent appointment.

Analysis

The reshuffle is intended to strengthen Mr Kenyatta's position vis-à-vis his deputy, William Ruto, highlighting the increasingly strained relationship between the former allies. Mr Kiunjuri's removal reflects his open advocacy of Mr Ruto as Kenya's next president in 2022 (when Mr Kenyatta steps down after two terms) and his lack of enthusiasm for the president's Building Bridges Initiative (BBI) with the opposition. Weak agricultural performance in 2019, although largely due to poor rainfall, followed by floods, may have sealed Mr Kiunjuri's fate. The trade minister, Peter Munya, will take on the agriculture portfolio, while retaining many of his existing responsibilities, in a sign of the president's confidence in his abilities.

The formal removal of Henry Rotich as finance minister, after his suspension in July 2019 because of alleged corruption linked to a dam building scandal, and the confirmation of Mr Yatani as a permanent appointment, was the president's second main action. We view this is a favourable move, because Mr Yatani is displaying far more fiscal discipline than his predecessor. While announcing the reshuffle, the president also took the opportunity to reaffirm his anti-corruption campaign, and said that the National Intelligence Service would probe "cartels" and other patronage networks in the public sector.

To placate the vote-rich Central region, where Mr Kiunjuri hails from, the president nominated Mutahi Kagwe (a former minister during Mwai Kibaki's presidency in 2003-13) to be the new health minister, in place of Sicily Kariuki, who switches to water. Simon Chelugui moves from water to labour, and Raychelle Omamo goes from defence to foreign affairs, with Monica Juma moving in the other direction. Almost all other ministers (the majority) remain in post including Fred Matiangi (interior and government co-ordination; the de facto prime minister) James Macharia (transport, infrastructure and housing), Charles Keter (energy) and John Munyes (mining and petroleum).

Impact on the forecast

The president intends the reshuffle to re-energise his "big four" agenda of food security, health, housing and industry, while quieting the voices opposed to his political initiatives, especially the BBI. The ruling Jubilee Party remains intact but may fracture before the next elections in 2022 because of tensions between Mr Kenyatta and his deputy.

Economy

Forecast updates

Delays expected in 2020 over activating free-trade zone

January 15, 2020: Economic growth

Event

At end-December the president of the African Development Bank (AfDB), Dr Akinwumi Adesina, was endorsed by the Economic Community of West African States (ECOWAS) at the 56th ordinary session of the Authority of Heads of State and Government of ECOWAS, for a second five-year term at the AfDB from 2020.

Analysis

The ECOWAS endorsement came in part for Dr Adesina's work on pushing through the African Continental Free Trade Area (AfCFTA) in 2019 (a key component of the AfDB's wider push for deeper regional integration in Africa under him). Dr Adesina estimates that the continent-wide free-trade zone (FTZ) will be worth US$3.3trn once it formally begins on July 1st 2020. Officially, the AfCFTA came into force on May 30th 2019 after being ratified by 22 countries (the minimum number of signatory countries required to activate enactment of the agreement's provisions, without which the agreement would have lain dormant; 54 African states have signed the agreement and 27 have ratified it). However, international trade agreements are not self-executing and African countries were given until mid-2020 to prepare for it actively.

Despite this grace period, The Economist Intelligence Unit remains sceptical as to whether most AfCFTA signatory states will be ready to implement the agreement by the July 2020 deadline—many because their governments are too distracted or uninterested to implement it meaningfully. Some larger African countries, such as Nigeria, are still ambivalent about the agreement and, therefore, hesitant to push (and support) their smaller, less developed neighbours into preparing for its activation. Other important economies, such as Ethiopia and South Africa, are gripped by domestic crises that are absorbing reformers' energies. Moreover, the institutional frameworks to deal with legal issues arising from implementing AfCFTA (such as the non-complementarity of many goods across different markets) remain too weak in many African states to be ready, even with over a year's notice. Sluggish implementation of necessary legal changes and other obstacles will, therefore, see the vast majority of African states fail to meet the July 2020 deadline. While pan-African institutions like the African Union (AU) and the AfDB will continue to push for action, we expect the agreement's activation will be postponed (de facto if not de jure) until at least the end of 2020.

Impact on the forecast

In line with the expected postponement of AfCFTA's implementation, we maintain our forecast that substantive benefits from the treaty will not occur within the 2020-24 forecast period.

Treasury revises down budget deficit

January 22, 2020: Fiscal policy outlook

Event

A draft budget policy statement from the National Treasury on January 17th revises down the projected deficit for the 2020/21 fiscal year (July-June) to 4.9% of GDP—the smallest for a decade—from last October's prediction of a 5.3% of GDP shortfall.

Analysis

The deficit reduction reflects that a more prudent approach is being taken by the new finance minister, Ukur Yatani, who was appointed in an acting capacity in July 2019 before being confirmed as a full-time appointee in January. Mr Yatani aims to cut wasteful spending (including on projects), reduce reliance on expensive borrowing and clear a large backlog of pending bills in order to relieve the pressure on private-sector suppliers and contractors. The draft budget statement therefore proposes to trim spending to 23.6% of GDP in 2020/21, from a prior figure of 24.1% of GDP. Recurrent outlays account for most of the decrease, although project spending will also fall.

Having been appointed after the budget for 2019/20 (the current fiscal year) was finalised, Mr Yatani's scope for intervention is small. He now expects a slight shortfall in revenue and a moderate degree of overspending, pushing up the forecast deficit to 7.2% of GDP, from 6.8% of GDP (on a commitments basis), and to 6.3% of GDP, from 6.2% of GDP (on a cash basis). The source of the one-off KSh90.7bn cash-basis adjustment is not identified.

In financing terms, Mr Yatani has revised foreign borrowing upwards slightly in 2019/20 to 3.4% of GDP (from 3.2% of GDP) and domestic borrowing downwards mildly to 2.9% of GDP (from 3% of GDP). For 2020/21 foreign borrowing is unchanged at 2.1% of GDP, but domestic borrowing is down sharply, to 2.7% of GDP (from 3.2% of GDP). Reduced reliance on domestic borrowing reflects rising interest costs after the cap on bank lending rates was scrapped in November. Despite projected higher foreign borrowing, Mr Yatani hopes to secure more concessional loans, including US$1bn from the World Bank in 2019/20, thereby cutting reliance on expensive sovereign bonds or syndicated bank loans. The budget statement leaves the deficit projections for subsequent fiscal years largely unchanged, with the shortfall expected to narrow to 4.5% of GDP in 2021/22, 3.9% of GDP in 2022/23 and 3.3% of GDP in 2023/24.

Impact on the forecast

We expect the pace of fiscal consolidation to be slower than predicted by the Treasury, but the outlook for budget and debt-related risks is improving. We will review our forecasts.

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Kenya profile - Timeline

7 January 2020

A chronology of key events:

c 3.3 million BC - Evidence of some of the earliest human tools have been found in Kenya, suggesting that it was the cradle of humanity from which descendents moved out to populate the world.

600 - Arabs begin settling coastal areas, over the centuries developing trading stations which facilitated contact with the Arab world, Persia and India.

1895 - Formation of British East African Protectorate.

1920 - East African Protectorate becomes crown colony of Kenya - administered by a British governor.

Mau Mau

1944 - Kenyan African Union (KAU) formed to campaign for African independence. First African appointment to legislative council.

1947 - Jomo Kenyatta becomes KAU leader.

1952-53 - Secret Kikuyu guerrilla group known as Mau Mau begins violent campaign against white settlers. State of emergency declared, Jomo Kenyatta jailed, KAU banned.

GETTY IMAGES

1956 - Mau Mau rebellion put down.

1960 - State of emergency ends. Britain announces plans to prepare Kenya for majority African rule. Kenya African national Union (Kanu) formed by Tom Mboya and Oginga Odinga.

Independence

1961 - Jomo Kenyatta freed from two years of house arrest, assumes presidency of Kanu.

1963 - Kenya gains independence, with Mr Kenyatta as prime minister.

1964 - Republic of Kenya formed. Jomo Kenyatta becomes president and Oginga Odinga vice-president.

1966 - Mr Odinga leaves Kanu after ideological split, forms Kenya People's Union (KPU).

1969 - Assassination of government minister Tom Mboya sparks ethnic unrest. KPU banned and Mr Odinga arrested. Kanu only party to contest elections.

1974 - Kenyatta re-elected.

Moi era

1978 - Kenyatta dies in office, succeeded by Vice-President Daniel arap Moi.

1982 June - Kenya officially declared a one-party state by National Assembly.

GETTY IMAGES

1987 - Opposition groups suppressed. International criticism of political arrests and human rights abuses.

1991 August - Forum for the Restoration of Democracy (Ford) formed by six opposition leaders, including Oginga Odinga. Party outlawed and members arrested. Creditors suspend aid to Kenya amid fierce international condemnation.

1991 December - Special conference of Kanu agrees to introduce a multi-party political system.

1992 - Approximately 2,000 people killed in tribal conflict in the west of the country.

Multi-party elections

1992 December - President Moi re-elected in multi-party elections. Kanu wins strong majority.

1994 - Oginga Odinga dies. Opposition groups form coalition - the United National Democratic Alliance - but it is plagued by disagreements.

1997 December - President Moi wins further term in widely-criticised elections. His main opponents are former vice-president Mwai Kibaki and Raila Odinga, son of Oginga Odinga.

Embassy bomb

1998 August - Al-Qaeda operatives bomb the US embassy in Nairobi, killing 224 people and injuring thousands.

GETTY IMAGES

2002 July - Some 200 Maasai and Samburu tribespeople accept more than $7m in compensation from the British Ministry of Defence. The tribespeople had been bereaved or maimed by British Army explosives left on their land over the last 50 years.

2002 November - Al-Qaeda attack on Israeli-owned hotel near Mombasa kills 10 Kenyans and injures three Israelis. A simultaneous rocket attack on an Israeli airliner fails.

Kibaki victory

2002 December - Elections. Mwai Kibaki wins a landslide victory, ending Daniel arap Moi's 24-year rule and Kanu's four decades in power.

2004 October - Kenyan ecologist Wangari Maathai wins the Nobel Peace Prize.

2005 November-December - Voters reject a proposed new constitution in what is seen as a protest against President Kibaki.

2007 December - Disputed presidential elections lead to violence in which more than 1,500 die.

The government and opposition come to a power-sharing agreement in February and a cabinet is agreed in April.

Constitution approved

2010 July - Kenya joins its neighbours in forming a new East African Common Market, intended to integrate the region's economy.

2010 August - New constitution designed to limit the powers of the president and devolve power to the regions approved in referendum.

2011 August-September - Somali al-Shabab jihadists raid Kenyan coastal resorts and a refugee camp, targeting foreigners.

Troops in Somalia

2011 October - Kenyan troops enter Somalia to attack rebels they accuse of being behind several kidnappings of foreigners on Kenyan soil. Kenya suffers several reprisal attacks.

2012 January - International Criminal Court rules that several prominent Kenyans must stand trial over the 2007 post-election violence.

2012 March - Oil discovered. President Kibaki hails it as a "major breakthrough".

2012 May - More than 30 people are injured in an attack on a Nairobi shopping centre by al-Shabab.

2012 August-September - More than 100 people are killed in communal clashes over land and resources Coast Province.

Five people die in riots by Muslim protesters in Mombasa after the shooting of preacher Aboud Rogo Mohammed, accused by the UN of recruiting and funding al-Shabab Islamist fighters in Somalia.

Kenyatta wins election

2013 March - Uhuru Kenyatta, the son of Kenya's first president, wins presidential election with just over 50% of the vote. A challenge to the results by his main rival, Prime Minister Raila Odinga, is rejected by the Supreme Court.

2013 June - The British government says it sincerely regrets the torture of thousands of Kenyans during the suppression of the Mau Mau insurgency in the 1950s and promises £20m in compensation.

2013 September - Deputy President William Ruto pleads not guilty at the International Criminal Court to crimes against humanity charges over the 2007 post-election violence.

Al-Shabab steps up attacks

2013 September - Somali al-Shabab militants seize the Westgate shopping mall in Nairobi and kill more than 60 people, saying they want Kenya's military to pull out of Somalia.

AFP

2014 June - At 48 people die after al-Shabab militants attack hotels and a police station in Mpeketoni, near the island resort of Lamu.

2014 December - Prosecutors at the International Criminal Court drop charges against President Kenyatta over the 2007 post-election violence, citing insufficient evidence.

2015 April - Al-Shabab carry out a massacre at Garissa University College in northwest Kenya, killing 148 people.

2017 February - Government declares a drought affecting a large part of the country to be a national disaster.

2017 May - A new multi-billion-dollar railway line linking Mombasa to the capital Nairobi is opened - the country's biggest infrastructure project since independence.

2017 August-October - President Kenyatta is declared winner of the presidential election in August as well as the re-run in October.

2020 January - Al-Shabab Somali jihadists attack Camp Simba army base near Lamu, killing three Americans.

Niger

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U.S. Embassy in Niger

Ambassador Eric P. Whitaker

United States Ambassador to the Republic of Niger

The Deputy Secretary of State for the United States administered the oath of office to Eric Whitaker in a December 15, 2017 ceremony at the Department. Ambassador Whitaker is a career member of the U.S. Senior Foreign Service with 27 years of experience. Ambassador Whitaker joined the Bureau of African Affairs Front Office as Acting Deputy Assistant Secretary in January 2017 with East African Affairs, Sudan, and South Sudan portfolios. His previous position was Director of East African Affairs.

From October 2012-2014, he served as Deputy Chief of Mission at U.S. Embassy N'Djamena, Chad, before returning to the Department of State. Prior to that, he served as Foreign Policy Advisor (POLAD) to the U.S. military in Djibouti, and as Counselor for Economic Affairs at Embassy Nairobi, Kenya. From 2008-2010, he served as Deputy Chief of Mission and then as Chargé d'Affaires at the U.S. Embassy in Niamey, Niger. Ambassador Whitaker also served as an Embedded Provincial Reconstruction Team (E-PRT) Leader in Baghdad, Iraq, heading an eight-member team composed of State, USAID, and DoD civilians.

Ambassador Whitaker has a BS in biology and an MS in community health education from the University of Illinois, a Master of Public Administration degree from the University of Pittsburgh, and a Master of Public Policy degree from the Wilson School at Princeton University. Prior to the Foreign Service, he served as a Community Health Development Peace Corps Volunteer in the Philippines and as Assistant to the City Manager for the City of Lodi, California.

Ambassador Whitaker speaks Portuguese, Spanish, French, Visayan, and Korean, and has received eleven Meritorious and Superior Honor Awards, as well as the Department of Defense Meritorious Civilian Honor Award.

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← NIGER

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U.S. Relations With Niger

BILATERAL RELATIONS FACT SHEET

BUREAU OF AFRICAN AFFAIRS

DECEMBER 4, 2018

Share

More information about Niger is available on the Niger Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-NIGER RELATIONS

The United States established diplomatic relations with Niger in 1960, following its independence from France. U.S. relations with Niger since its independence have generally been close and friendly. In 2010, a military junta took power after overthrowing the former president, who had tried to extend his rule unconstitutionally. Niger has taken important steps to consolidate and advance democratic institutions. President Mahamadou Issoufou was inaugurated in 2011, which returned Niger to constitutional, civilian rule. Issoufou was re-elected in March 2016, and the next Presidential elections are scheduled for December, 2020. Security threats emanating from Libya, the Lake Chad Basin, Nigeria, Burkina Faso, and Mali have hampered the government's efforts to improve Niger's economy, strengthen governance, promote human rights, and protect fundamental freedoms. Niger is a critical actor in regional efforts to counter terrorism and promote stability as a key member of the Multinational Joint Task Force (MNJTF) and the G-5 Sahel and peacekeeping contributor to missions in Mali and Central African Republic.

U.S. Assistance to Niger

U.S. foreign assistance to Niger plays a critical role in preserving stability in a country vulnerable to political volatility, terrorism and the spread of violent extremism, food insecurity, and regional instability. U.S. assistance seeks to continue to improve food security, build counterterrorism and peacekeeping capacity, sustain security sector reform, support productive agricultural enterprises, promote democracy and good governance, support prison and criminal justice sector reform, and strengthen security sector education and training. A $437 million Millennium Challenge Corporation compact, entered into force in January 2018, will strengthen Niger's agricultural sector by improving water availability, roads, and market access. Niger is one of six countries participating in the Security Governance Initiative and has been identified as a Counterterrorism Partnership Fund partner nation.

Bilateral Economic Relations

Niger is one of the poorest countries in the world. Its largely agrarian and subsistence-based economy is frequently disrupted by extended droughts common to the Sahel region of Africa. U.S. exports to Niger include rice, vehicles, food-preparation goods, machinery, and fats and oils. Niger is eligible for preferential trade benefits under the African Growth and Opportunity Act. The United States has a trade and investment framework agreement with the Economic Community of West Africa (ECOWAS), of which Niger is a member. Niger has signed a bilateral investment agreement with the United States.

Niger's Membership in International Organizations

Niger and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, World Bank, and World Trade Organization.

Bilateral Representation

The U.S. Ambassador to Niger is Eric P. Whitaker; other principal embassy officials are listed in the Department's Key Officers List.

Niger maintains an embassy in the United States at 2204 R Street, NW, Washington, DC 20008 (tel. 202-483-4224).

More information about Niger is available from the Department of State and other sources, some of which are listed here:

CIA World Factbook Niger Page
U.S. Embassy
USAID Niger Page
History of U.S. Relations With Niger
Office of the U.S. Trade Representative Country Page
U.S. Census Bureau Foreign Trade Statistics
Millennium Challenge Corporation: Niger
Library of Congress Country Studies
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Country Report

Niger

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Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l’Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Niger

Summary

Economic structure

Outlook for 2020-21

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Neil Thompson**

Forecast Closing Date: **November 8, 2019**

Political and economic outlook

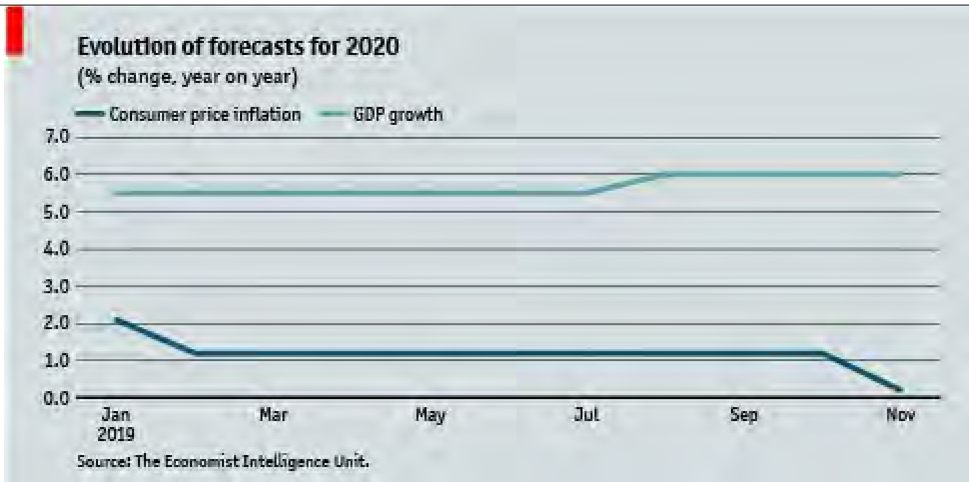
- The president, Mahamadou Issoufou, will maintain his grip on power until the second round of presidential elections in February 2021, despite criticism from the opposition over his administration's authoritarian methods of rule.
- The government will focus on containing the threat posed by terrorist groups, as well as on advancing key infrastructure projects, but progress will be held back by limited fiscal resources and weak business environment.
- The fiscal deficit will narrow slightly, from an estimated 4.8% of GDP in 2019 to 2.7% of GDP in 2021, owing to a widening tax base, greater administrative efficiency, and pressure from the IMF to control public spending.
- The Economist Intelligence Unit forecasts that real GDP growth will remain robust at an average of 5.9% in 2020-21, driven by strong activity in the construction and service sectors (as work on large-scale infrastructure projects ramps up).
- We expect that inflation will average 0.8% in 2020-21 as falling oil prices in 2020 and an appreciating CFA franc in 2020-21 help to keep inflationary pressures in check, despite fears about Niger's food security, a key driver of inflation.
- The current-account deficit will widen gradually, from an estimated 20.5% of GDP in 2019 to 22.9% of GDP in 2020, before narrowing in 2021, to 21.7% of GDP. These shifts will occur in line with movements in trade and service balances.

Key indicators

	2018[a]	2019[a]	2020[b]	2021[b]
Real GDP growth (%)	5.2[c]	5.5	6.0	5.8
Consumer price inflation (av; %)	3.0	-2.8	0.2	1.3
Government balance (% of GDP)	-4.4	-4.8	-3.3	-2.7
Current-account balance (% of GDP)	-17.8	-20.5	-22.9	-21.7
Money market rate (av; %)	2.5	2.5	2.5	2.5
Exchange rate CFAfr:US$ (av)	555.7[c]	587.0	585.7	561.9

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Market opportunities



Key changes since August 1st

- We have noted the change in the scheduled date of legislative elections, from February 2021 to December 27th 2020, in line with a public statement announcing the change from Niger's Independent National Electoral Commission.
- We have revised our inflation estimate for 2019 from a positive growth rate of 2% to annual average deflation of 2.8%, driven by stable food prices and the falling cost of oil.
- In line with latest available data, we have revised down our uranium production estimate for 2019. This has led to lower export earnings from it, and thus a wider current-account deficit (20.5% of GDP) than previously estimated (18.8% of GDP) in the year.

The quarter ahead

- **December—Monetary policy committee (MPC) meeting:** We expect the MPC of the Banque centrale des Etats de l'Afrique de l'ouest (BCEAO, the regional central bank), to keep its policy rate at 2.5%, reflecting the position of the European Central Bank (ECB). The BCEAO is influenced by the ECB, owing to the CFA franc's peg to the euro.

Basic data

Land area

1,267,000 sq km

Population

21.5m (2017; IMF actual)

Main towns

Population ('000; 2012 World Gazetteer estimates)

Niamey (capital): 1,059

Zinder: 254

Maradi: 188

Arlit: 129

Agadez: 119

Tahoua: 110

Climate

Arid tropical; rainy season May-September

Weather in Niamey (216 metres above sea level)

Hottest month, May, 27-41oC; coldest month, January, 14-34oC; driest month, December, 0 mm average rainfall; wettest month, August, 188 mm average rainfall

Languages

French, Hausa, Djerma, Fulfuldé, Tamasheq and others

Measures

Metric system, traditional measures

Currency

CFA franc (franc de la Communauté financière africaine, the common currency of the Union économique et monétaire ouest-africaine); fixed to the euro at CFAfr655.957:€1; CFAfr555.7:US$1 (2018 average)

Time

One hour ahead of GMT

Public holidays

Fixed: January 1st, April 24th (National Concord Day), May 1st (Labour Day), August 3rd (Independence Day), December 18th (Republic Day), December 25th (Christmas Day)

Movable: Tabaski (July 30th 2020), Easter Monday (April 13th 2020), Leilat alQadr (May 20th 2020), Eid al-Fitr (May 23rd 2020), Mouloud (October 28th 2020)

Political structure

Official name

République du Niger

Form of state

Unitary republic

Legal system

The constitution of Niger's Seventh Republic was approved by referendum in 2010

National legislature

National Assembly of 171 members

National elections

February 21st 2016 (legislative, presidential first round); March 20th 2016 (presidential second round); next legislative and first round presidential elections due on December 27th 2020, and the second round of the presidential election will be held in February 2021

Head of state

The president, elected for a maximum of two five-year terms; Mahamadou Issoufou was inaugurated for his second five-year term on April 2nd 2016

National government

A new 42-member cabinet was named by the prime minister, Brigi Rafini, and approved by the president in October 2016

Main political parties

The Parti nigérien pour la démocratie et le socialisme (PNDS) won the largest number of seats (75 out of a total 171) at the 2016 legislative election; the PNDS is part of a pro-presidential coalition, the Mouvance pour la renaissance du Niger (MRN), that also includes the Mouvement patriotique pour la République (MPR), the Alliance nigérienne pour la démocratie et le progrès (ANDP), the Rassemblement pour la démocratie et le progrès (RDP), the Union pour la démocratie et la République (UDR) and the Mouvement national pour la société de développement (MNSD), which moved from the opposition to the ruling coalition in October 2016; the opposition consists of two main parties, the Mouvement démocratique nigérien (Moden) and the Convention démocratique et sociale (CDS)

Prime minister: Brigi Rafini

Ministers of state

Agriculture & livestock: Abouba Albadé

Interior, public security, decentralisation & religious affairs: Mohamed Bazoum

Minister of state at the presidency: Hassoumi Massoudou

Key ministers

Chief of staff: Mahamadou Ouhoumoudou

Commerce & private-sector promotion: Seydou Sadou

Defence: Issoufou Katambé

Education & literacy: Marthé Daouda

Energy: Amina Moumouni

Finance: Mahamadou Diop

Foreign affairs & co-operation: Kalla Ankourao

Health: Idi Illiassou Mainassara

Higher education, research & innovation: Yahouza Sadissou

Humanitarian affairs & disaster management: Laouan Magagi

Industry: Amyor Malm Zanaidu

Justice: Amadou Marou

Mines: Hassane Barazé Moussa

Oil: Pierre Gado Foumakoye

Planning: Aïchatou Boulama Kané

Population: Amadou Aissata Rékiatou

Public service & administrative reform: Kaffa Rakiatou Christelle Jackou

Water & sanitation: Kalla Moutari

Governor of the central bank (BCEAO)

Tiémoko Meyliet Koné

Economic structure

Annual indicators

	2015[a]	2016[a]	2017[a]	2018[b]	2019[b]
GDP at market prices (CFAfr bn)	4,269	4,464	4,778	5,201	5,241
GDP (US$ bn)	7.2	7.5	8.2	9.4	8.9
Real GDP growth (%)	4.3	4.9	4.9	5.2[a]	5.5
Consumer price inflation (av; %)	-0.6	1.7	2.8	3.0	-2.8
Population (m)	20.0	20.8	21.6	22.4[a]	23.3
Exports of goods fob (US$ m)	1,087	1,032	1,206	1,421	1,494
Imports of goods fob (US$ m)	-1,976	-1,715	-1,952	-2,371	-2,589
Current-account balance (US$ m)	-1,486	-1,181	-1,271	-1,664	-1,829
Foreign-exchange reserves excl gold (US$ m)	1,116	1,186	1,299	1,077[a]	1,553
Exchange rate (av) CFAfr:US$	591.5	593.0	582.0	555.7[a]	587.0

[a] Actual. [b] Economist Intelligence Unit estimates.

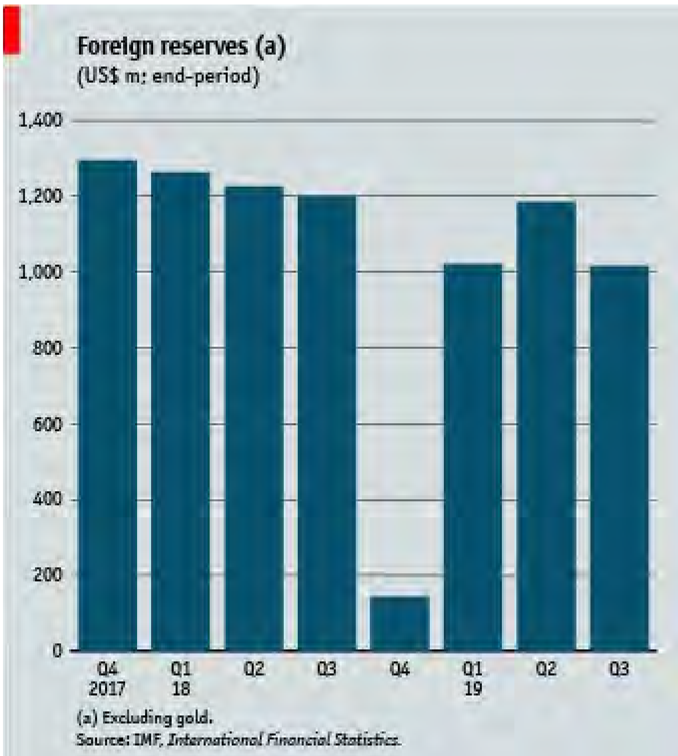
Origins of gross domestic product 2017	% of total	Components of gross domestic product 2017	% of total
Agriculture	42.3	Private consumption	71.3
Industry	16.9	Government consumption	8.5
Manufacturing	6.1	Gross fixed investment	37.2
Services	40.8	Exports of goods & services	16.6
		Imports of goods & services	33.7
Principal exports 2018 [b]	**US$m**	**Principal imports 2018 [b]**	**US$m**
Oil products	218.0	Capital goods	101.1
Uranium	209.0	Consumer goods	78.7
Re-exports	197.0	Intermediate goods	35.2
Palm oil	83.0	Energy products	9.2
Destination of exports 2018[a]	**% of total**	**Origin of imports 2018[a]**	**% of total**
Thailand	33.1	France	23.8
China	11.7	China	16.5
US	10.1	US	6.8
Nigeria	9.2	Nigeria	5.2

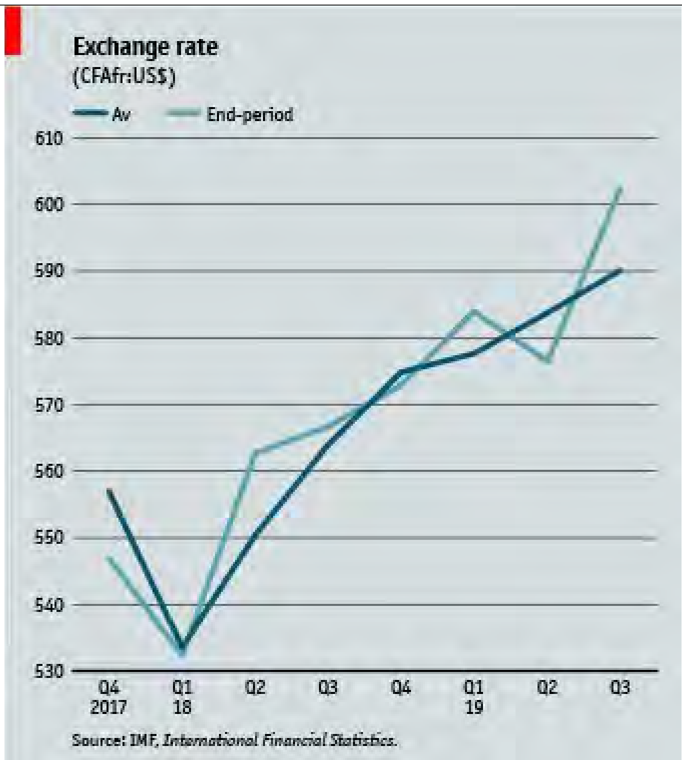
[a] Drawn from partners' trade returns, subject to a wide margin of error. [b] Customs statistics, BCEAO.

Quarterly indicators

	2017 4 Qtr	2018 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2019 1 Qtr	2 Qtr	3 Qtr
Prices								
Consumer prices (2010=100)	110.3	110.5	113.2	113.1	111.6	109.1	109.4	n/a
Consumer prices (% change, year on year)	3.8	4.3	3.8	2.6	1.2	-1.3	-3.3	n/a
Financial indicators								
Exchange rate CFAfr:US$ (av)	557.0	533.6	550.4	564.0	574.8	577.6	583.7	590.1
Exchange rate CFAfr:US$ (end-period)	547.0	532.4	562.7	566.7	572.9	583.9	576.4	602.4
Deposit rate (av; %)	9.6	9.5	9.2	9.7	8.8	9.5	9.8	n/a
Central bank rate (end-period; %)	2.50	2.50	2.50	2.50	2.50	3.50	4.50	5.50
M1 (end-period; CFAfr bn)	915	909	860	863	909	937	1,009	n/a
M1 (% change, year on year)	-2.7	-8.1	-17.8	-12.4	-0.7	3.0	17.3	n/a
M2 (end-period; CFAfr bn)	1,150	1,148	1,109	1,076	1,126	n/a	n/a	n/a
M2 (% change, year on year)	0.5	-7.6	-14.3	-11.9	-2.1	n/a	n/a	n/a
Foreign trade (CFAfr m)[a]								
Exports fob	165.6	182.0	140.1	130.0	125.0	270.4	282.2	n/a
Imports cif	479.5	516.2	467.3	388.1	508.8	619.0	655.7	n/a
Trade balance	-313.9	-334.2	-327.3	-258.1	-383.9	-348.6	-373.6	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	1,296.8	1,313.5	1,212.3	1,183.7	143.1	977.6	1,133.2	1,026.1

[a] DOTS estimates.
Sources: IMF, International Financial Statistics, Direction of Trade Statistics (DOTS).




Exchange rate
(CFAfr:US$)
Av
End-period
610
600
590
580
570
560
550
540
530
Q4 2017
Q1 18
Q2
Q3
Q4
Q1 19
Q2
Q3
Source: IMF, International Financial Statistics.

Outlook for 2020-21

Political stability

The Economist Intelligence Unit expects the president, Mahamadou Issoufou, to complete his term (ending in February 2021). The ruling Parti nigérien pour la démocratie et le socialisme (PNDS) will remain in power throughout the forecast period, including after legislative and presidential elections on December 27th 2020. Until then, the PNDS has a strong hold on the legislature, and the party's firm grip on state institutions provides an element of political stability. However, although we expect broad political stability to remain intact, social stability remains fragile. Large-scale protests could easily emerge, owing to stubbornly high poverty rates, weak security conditions and corruption. We continue to expect the government to resort to repressive means of maintaining public order, but we do not expect the political opposition to threaten government stability, largely because it remains marginalised in the National Assembly.

The country's multi-front security and refugee crises will mean that security conditions will remain extremely poor in 2020-21. Overlapping jihadi and criminal violence is high within and along Niger's porous borders, with terrorist attacks recorded along its western boundaries with Mali and Burkina Faso and in the south-eastern Diffa region near Lake Chad (where jihadi attacks are increasing by a Nigeria-based group, Boko Haram). Niger's security forces will remain over-stretched by simultaneous campaigns against Islamic State in the Greater Sahara, Jamaat Nusrat al-Islam wal-Muslimin and Ansar al-Islam in the west and two separate Boko Haram factions (each affiliated with IS) in the south and south-east. Cattle-rustling, village raids and hostage-taking by bandit groups based in north-western Nigeria has driven tens of thousands of Nigerian refugees across the border into Niger's southern Maradi region. Niger's vast north-central desert region of Agadez is currently peaceful, but remains vulnerable to violence (and refugees) spilling over from southern Libya (where rival Islamist, Tubu, Arab and Tuareg armed groups are competing for influence).

Niger's interior minister, Mohamed Bazoum, has warned that the deteriorating situation in Libya has increased the circulation of arms and boosted the strength of criminal syndicates in Sahel countries already struggling with Islamist insurgencies and inter-communal violence. More broadly, Niger is a key local arms market and a transit route for global drug-smuggling and arms-trafficking to conflict zones elsewhere in North and West Africa. In particular, the Agadez region will remain tense, owing to the unpopular ban on the business of transporting migrants, formerly an integral part of the informal economy. We continue to expect criminal networks to continue and for their influence to destabilise Niger in 2020-21.

Election watch

We expect both Mr Issoufou and the PNDS to remain in power until the next legislative and presidential elections. The authorities have taken steps to influence the outcome of the legislative and presidential votes in favour of the PNDS (and allied parties).

Niger's Independent National Electoral Commission (known by its French acronym), which the opposition claims is biased, has aided the government by moving forwards Niger's electoral timetable for legislative and (for the first round) presidential elections from February 2021 to December 2020; voters will turn out for local polls in November 2020, just as the PNDS (and its allies) gear up for national elections. Holding the local elections so close to the national elections will maximise government candidates' exposure and opportunities for the PNDS to offer political patronage to local leaders in exchange for votes.

The ruling coalition (which is dominated by the PNDS) also used its majority in the National Assembly to approve an amendment of Niger's electoral law. This aims to bar the main opposition presidential candidate, Hama Amadou, the exiled head of the opposition Mouvement démocratique nigérien pour une fédération africaine, from running, by rendering him ineligible to stand. The new law blocks any individual who has served a jail sentence of one year or longer from standing for the presidency; conveniently Mr Amadou was previously sentenced in absentia to a year in prison for conniving in infant-trafficking, after one of his wives was accused of acquiring two infants trafficked from Nigeria.

Mr Issoufou is expected to step down after the second round of the presidential election (currently scheduled for February 2021, after the first round in end-December 2020), and will back Mr Bazoum, who has been chosen as the PNDS's 2021 presidential candidate. We currently expect him to win at the second round of the presidential election and to successfully take over from Mr Issoufou as president.

International relations

The threat from transnational terrorism in the Sahel means that security co-operation between Niger and its regional neighbours will deepen in 2020-21. Relations with the US and the EU will also remain strong, focused mainly on security and managing illicit migration. The US will increase its use of Nigerien territory to conduct surveillance, intelligence-gathering and drone strikes after the completion of a joint US-Nigerien drone base in November. The EU will continue providing support to the country's armed forces to deter migrant-trafficking along the route north from Agadez into Libya. EU member states will continue to give Niger aid to address the lack of economic and social development that encourages economic migration. We also expect China to remain a significant trading partner and a major investor in Niger's oil, uranium and infrastructure.

Policy trends

Economic policy in the forecast period will focus on the pursuit of basic infrastructure development, as well as fiscal consolidation. In mid-2019 the IMF's Executive Board completed its fourth review of Niger's economic and financial progress under the country's ongoing three-year extended credit facility (ECF) programme. The Fund noted that Niger's performance continued to be satisfactory, and released a further tranche of its loan, worth US$47m (bringing the total disbursed since the start of the arrangement in January 2017 to US$125.4m). The Board's endorsement may improve weak investor confidence, given Niger faces a complex economic situation, where the government is striving to implement its longer-term infrastructure development agenda while containing public spending, growing revenue and meeting increased security costs. The government's economic policy direction will continue to receive support from the IMF as Niger works to strengthen public finances and curb corruption, and we expect Niger to apply for a new ECF programme when the current arrangement expires in January 2020. The country will therefore continue fiscal consolidation efforts in 2020-21 in order to catalyse donor support and boost investor confidence. However, investors will continue to be deterred by a persistently poor business environment, weak infrastructure and a fragile security situation.

Fiscal policy

During the 2020-21 forecast period we expect the overall direction of fiscal policy to remain broadly in line with Niger's current ECF agreement with the Fund in order to contain its fiscal deficit and maintain debt sustainability.

Spending pressures will remain high in the face of an increasingly poor sub-regional security situation in 2020-21. Despite the commitment under its current ECF arrangement to reducing its fiscal deficit to meet the West African Economic and Monetary Union's convergence criterion of 3% of GDP by 2020, the government will only achieve this in 2021. We forecast that spending as a share of GDP will rise in 2020, driven by increasing security costs and election-related spending. It will dip in 2021 as Niger's government works with the IMF to improve public-sector efficiency and support programme effectiveness following successful negotiations to achieve a new ECF. High social spending from international donors will be used to reduce spending pressures on government welfare budgets over the forecast period, given the government's plans to rein in fiscal spending are unpopular among the public.

Revenue as a percentage of GDP will rise in 2020, owing to large budgetary aid inflows from project grants, and rising government receipts as tax administration improves (plugging leakages and exemptions while strengthening the collection of tax arrears) and efforts to tax the informal sector bear fruit. Reforms include the establishment of a dedicated vehicle to collect back taxes, the linking of IT systems between the tax and customs administrations, plans for molecular marking of petroleum products from end-2019 to fight smuggling, and the finalisation of performance plans by tax and customs authorities on targets to meet regarding increasing the number of individuals and businesses paying tax. In 2021 revenue will rise in nominal terms, but dip as a share of GDP, as resource-related revenue from gold and uranium sales slips.

The fiscal deficit will narrow, from an estimated 4.8% of GDP in 2019 to 3.3% in 2020, and to 2.7% in 2021. Most of the shortfall will be covered by external grants and concessional loans. We would expect expenditure to fall if these do not materialise, but believe the risk of this happening is low, owing to ongoing political pressure in Europe to stabilise Niger and limit economic migration through it.

Monetary policy

Monetary policy is determined by the regional central bank, the Banque centrale des Etats de l'Afrique de l'ouest (BCEAO), which prioritises inflation-targeting in its eight member countries, as well as maintaining the CFA franc's peg to the euro. Policy is therefore heavily influenced by that of the European Central Bank (ECB). The ECB is pursuing an exceptionally accommodative monetary policy, with policy interest rates at or below zero. It is taking pre-emptive action against rising deflation risk and a deteriorating economic outlook in the euro zone, mostly driven by global trade tensions; in September 2019 the ECB announced a small cut to the deposit rate and another round of quantitative easing, which started in November. As part of this policy, the reference rate will be left unchanged, and we therefore expect the BCEAO to keep its own main policy rate unchanged at 2.5% in 2020-21.

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2018	2019	2020	2021
Real GDP growth				
World	2.9	2.3	2.5	2.8
OECD	2.3	1.6	1.5	1.8
EU28	2.0	1.4	1.4	1.7
Exchange rates				
¥:US$	110.4	108.4	105.9	104.6
US$:€	1.181	1.117	1.120	1.168
SDR:US$	0.706	0.725	0.726	0.711
Financial indicators				
€ 3-month interbank rate	-0.32	-0.35	-0.37	-0.24
US$ 3-month commercial paper rate	2.08	2.13	1.48	1.54
Commodity prices				
Oil (Brent; US$/b)	71.1	64.1	63.0	67.0
Uranium (US$/lb)	24.5	26.4	31.4	36.3
Food, feedstuffs & beverages (% change in US$ terms)	1.6	-5.7	0.5	4.6
Industrial raw materials (% change in US$ terms)	2.2	-8.2	1.0	3.5

Note. GDP growth rates are at market exchange rates.

Economic growth

Despite a volatile security backdrop, we expect that growth will remain robust in 2020-21. We estimate that growth will have risen in 2019 overall, to 5.5%, owing to increased activity in the construction and service sectors as several large resource-related projects ramped up. Growth is also supported by increased gold production.

In 2020 we expect growth to pick up further, to 6%, with the resource sector's indirect contribution to Niger's growth set to continue increasing in importance. This is due to on-going increases in donor and private-sector investment in projects related to Niger's extraction industries; these include construction of an oil pipeline by the China National Petroleum Corporation (to pass through neighbouring Benin) that is due to continue until 2022 (costing US$5.7bn for the pipeline and further oil-field development). There is also renewed construction at the Kandadji hydroelectric dam (set to last from 2019 to 2025) after the African Development Bank signed a financing agreement with Niger worth US$128m. Rising gold production will also support growth, despite declining uranium production and stable oil output.

In 2021 growth will dip to 5.8% as the decline in uranium production continues, falling gold prices cause a fall in production, and agricultural output decreases (following a forecast bumper harvest in 2020, owing to the cyclical nature of the sector). Downside risks to this forecast include infrastructure projects lagging behind schedule and the impact of slowing growth in China, an important importer of uranium.

Inflation

We expect consumer price inflation to remain subdued in 2020-21, owing in part to Niger's membership of the CFA franc zone. In 2019 we estimate annual average deflation of 2.8%, owing to adequate food availability keeping prices stable (although cereal import requirements are estimated to be above average, according to the UN Food and Agriculture Organisation) and a decline in global oil prices. In 2020 we expect inflation to rise to 0.2% as domestic and regional instability disrupts both local and crossborder trade and triggers refugee flows, putting pressure on food prices in some areas. In 2021 inflation will edge up to 1.3% as international oil and food prices rise noticeably. However, a more substantial increase will be prevented by the steady appreciation of the CFA franc against the US dollar. Downside risks to this forecast come from volatile domestic agricultural production or a worsening security situation.

Exchange rates

The CFA franc is pegged to the euro at CFAfr655.96:€1 and therefore fluctuates in line with euro-US dollar movements. After weakening in 2019, owing to Brexit looming and the continued threat of US trade tariffs on automotive exports, the euro will strengthen very slightly against the dollar in 2020, supported by a slowdown in US economic growth as US businesses continue to face higher input costs (as a result of higher import tariffs and rising labour costs), declining export competitiveness and uncertainty over future trade policy. Moreover, the Federal Reserve (the US central bank) has embarked on a policy-easing cycle, which will put downward pressure on the US dollar. In 2021 the euro will strengthen on a sustained basis, supported by improving macroeconomic fundamentals in the euro zone and monetary tightening by the ECB. In line with these developments, we expect the CFA franc to strengthen, from an estimated CFAfr587:US$1 in 2019 to CFAfr585.7:US$1 in 2020 and to CFAfr561.9:US$1 in 2021.

External sector

Niger's export base is narrow, with uranium and oil accounting for almost half of total export earnings; agriculture remains mainly of a subsistence nature. Despite uranium's global price rising in 2020-21, export earnings from it will fall, owing to declining production at Niger's current mines (near the end of their productive lives). Export earnings from gold will peak in 2020 and fall in 2021 in line with price movements. Oil production will remain flat throughout the forecast period, but export earnings will rise in 2021 in line with our global price rise forecast. Capital imports for public- and private-sector infrastructure projects will boost import spending in 2020-21 (food imports will also increase this in 2021). Overall, we expect the trade deficit to widen, from an estimated 12.3% of GDP in 2019 to 13.4% of GDP in 2020, before narrowing again to 12.3% of GDP in 2021.

Driven by the high cost of imported services for investment projects, the large services deficit will widen further as a percentage of GDP in 2020, before stabilising in 2021. The small deficit on the primary account will narrow as a percentage of GDP over the forecast period, in line with subdued profit repatriation from oil and uranium-mining firms during the forecast period. The secondary income surplus will increase in nominal terms, but shrink as a percentage of GDP in 2020-21, as still-strong aid inflows to support the government's development programme and security operations pass their peak.

Overall, we expect that the current-account deficit will widen as a share of GDP, from an estimated 20.5% in 2019 to 22.9% in 2020, before narrowing to 21.7% in 2021. The deficits will be financed by concessional loans from bilateral and multilateral lenders and modest foreign direct investment inflows. Aid inflows will also help to cover these deficits.

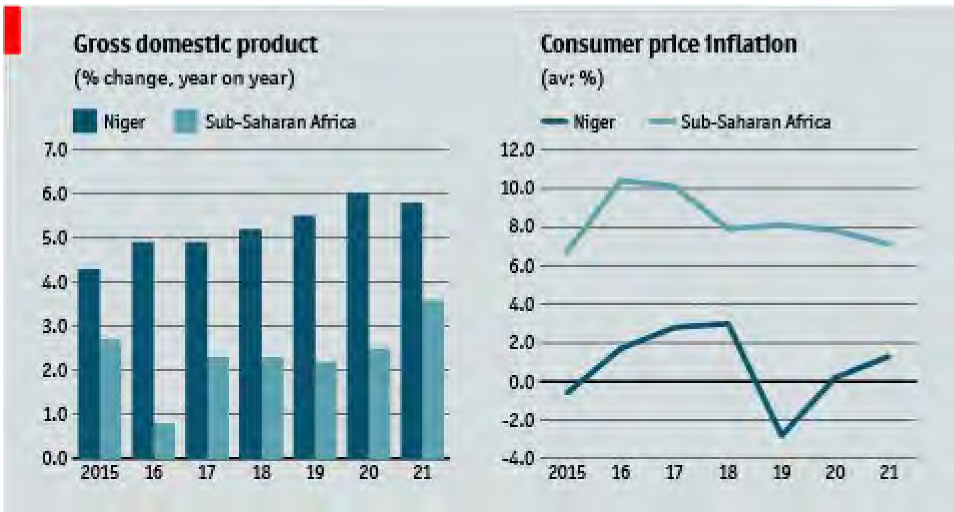
Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018[a]	2019[a]	2020[b]	2021[b]
Real GDP growth	5.2[c]	5.5	6.0	5.8
Consumer price inflation (av)	3.0	-2.8	0.2	1.3
Lending rate (av)	8.8[c]	5.3	5.6	5.6
Government balance (% of GDP)	-4.4	-4.8	-3.3	-2.7
Exports of goods fob (US$ m)	1,421	1,494	1,628	1,710
Imports of goods fob (US$ m)	-2,371	-2,589	-2,884	-3,018
Current-account balance (US$ m)	-1,664	-1,829	-2,149	-2,302
Current-account balance (% of GDP)	-17.8	-20.5	-22.9	-21.7
Exchange rate CFAfr:US$ (av)	555.7[c]	587.0	585.7	561.9
Exchange rate CFAfr:US$ (end-period)	572.9[c]	593.6	575.4	546.6
Exchange rate CfAfr:¥100 (av)	503.2[c]	541.6	553.2	537.0
Exchange rate CFAfr:€ (av)	656.0	656.0	656.0	656.0

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.



Recent analysis

Generated on January 22nd 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

G5 Sahel funding continues to lag

November 22, 2019: International relations

Event

On November 12th a report submitted to the UN Security Council warned that the five-nation (Burkina Faso, Chad, Mali, Mauritania and Niger) regional G5 Sahel force fighting jihadi groups in the Salel sub-region of West Africa requires more financial support than it is currently receiving.

Analysis

The force has carried out a number of operations, but it is hampered by a desperate shortage of reliable funding and the slow disbursement of previously agreed funds. This has damaged efforts to equip the force effectively to tackle local armed groups, which are increasingly well resourced, partly with money extracted from the Sahel's booming artisanal gold-mining industry.

The flow of funds to the G5 Sahel has been impeded by several factors. Firstly, procurement on the scale required is a major specialist technical and administrative task. The G5 countries had not previously handled large sums of external support, and many donors had initial concerns about the capacity of its headquarters (in Mauritania's capital, Nouakchott) to manage the inflow of funding in an efficient and accountable manner. However, donors themselves have also proven slow to transfer the necessary funding, indicating the low prior attached to instability in the Sahel. While the UAE was quick to provide €8m (US$8.9m) for the force's staff college—which is now operational and has seen its first contingent of officers graduate—a €100m donation promised by Saudi Arabia for equipment was slower to arrive. Meanwhile, EU procedures for the release of funds have also proved tortuously slow.

The UN secretary-general, António Guterres, has repeated his own calls to the Security Council for the G5 force to be given more support. He believes that it should be financed through the UN system of obligatory contributions from member states, under Chapter VII of the UN charter. This would create a reliable funding basis and enable the G5 to plan ahead and manage more effectively. France and Germany are open to the idea but have soft-pedalled it because the US is firmly opposed. The US does not wish to increase the sums of money the UN is entitled to secure from member states, instead preferring to support the G5 militaries through bilateral payments to each national army.

Impact on the forecast

Our forecasts for continued terrorist attacks and political instability in Sahel states in 2020-21 remain unchanged, owing to the impasse over properly funding local forces to tackle jihadi groups.

French military strategy in the Sahel comes under scrutiny

December 11, 2019: International relations

Event

On December 6th the French president, Emmanuel Macron, invited his counterparts in Mali, Chad, Burkina Faso, Niger and Mauritania to a meeting to discuss French-led military operations in the Sahel.

Analysis

France's military strategy in the Sahel has come under increasing domestic scrutiny following a helicopter crash during an anti-insurgent operation in north-eastern Mali in late November, in which 13 French soldiers were killed. This has brought the number of French military killed since the start of operations in Mali in 2013—initially under the so-called Operation Serval and, more recently, Operation Barkhane—to 41. In total, 4,500 French troops are in the region, marking the army's largest overseas deployment.

Although the government's focus has been on domestic issues, including a pending pension reform, there have been growing questions about France's foreign and defence policy in the region. The far-left party, La France Insoumise, has called for a parliamentary debate on the country's military presence and long-term strategy in the Sahel. Comments made by the head of the army, François Lecointre, that the operation is not one that the French can win, owing to the fact that insurgents are now dispersed over a large area ten times the size of France, have compounded the public perception that they do not want to continue military operations there indefinitely.

Mr Macron has acknowledged that the French government is considering a range of strategic options. A military withdrawal is highly unlikely, as the government argues that their role in the Sahel is preventative to stop insurgent groups allied with al-Qaeda and Islamic State from regrouping. However, France is likely to press other European countries to take a more active role in supporting ground operations, arguing that they too have a responsibility for collective security (the premise being that extremists pose a risk in terms of domestic terrorism in Europe). Mr Macron will also want to see firmer commitment from his African counterparts when the presidents meet on December 16th. Mr Macron has shown signs of frustration that anti-French sentiment has risen in some countries, notably Burkina Faso and Mali, related to the country's ongoing military presence there.

Impact on the forecast

Although foreign policy will continue to take a back seat to the domestic reform agenda, questions about France's long-term military strategy in the Sahel will continue. However, we do not expect a reduction in French forces in the region unless the number of French casualties rises sharply.

WTO's dispute-settlement mechanism collapses

December 11, 2019: International relations

Event

On December 10th two of the three remaining judges on the appellate body of the World Trade Organisation (WTO)—the main dispute-settlement body of that institution—retired from service. As a minimum quorum of three judges is required for the appellate body to function, the event effectively marked the collapse of the WTO's dispute-settlement mechanism.

Analysis

The US has had long-standing grievances with the appellate body (and the WTO more generally), even in the face of several WTO cases that it has won recently. These objections also predated the administration of Donald Trump, the current US president.

US concerns over the role of the appellate body—including allegations that it had overstepped its jurisdiction—arose during the presidency of George W Bush (2000-08), whose administration took issue with the body's findings that the US methodology for calculating anti-dumping and countervailing duties (a controversial practice known as "zeroing") were not WTO-compliant. This attitude hardened under the presidency of Barack Obama (2008-12), who blocked the reappointment of two appellate body judges (and obstructed consensus over the appointment of a third) during his time in office.

Mr Trump has since maintained this strategy of blocking appointments. The Economist Intelligence Unit had expected this outcome because of the president's long-harboured hostility towards the WTO. However, the collapse of the dispute-settlement mechanism will not immediately spell doom for either the WTO itself or the future of global commerce. We continue to expect global trade growth (by volume) to rebound modestly into positive territory in 2020, as the world acclimatises to the "new normal" of US-China economic tension and trade demand stabilises across major markets.

Nevertheless, the dissolution of the WTO's main dispute-settlement mechanism will erode important constraints on protectionist bad behaviour. There is now a growing risk that the lack of an international arbiter will allow both existing and future trade disputes to escalate more quickly. This will be particularly critical as the US-China trade war persists into 2020, while emerging disputes elsewhere—such as between South Korea and Japan, France and the US and the EU and Malaysia—weigh on the prospects of trade liberalisation more generally. Without the appellate body, these and other potential trade conflicts will continue to cast a shadow over world trade next year.

Impact on the forecast

We had anticipated that the WTO appellate body would cease to function by December, and have already built this event into our forecasts from 2020 onwards.

Jihadi attack on Niger military base leaves heavy casualties

December 12, 2019: Political stability

Event

On December 12th it was reported that at least 73 Nigerien soldiers had been killed in a jihadi attack on a remote military outpost at In-Atès, near the country's western border with Mali.

Analysis

The death toll from the attack was the deadliest one on the Nigerien military in recent memory, and is the latest in a string of recent setbacks inflicted on weak regional militaries in Mali, Burkina Faso and Niger. The attacks are being carried out by Sahel-based jihadi groups that have pledged fealty to Islamic State (IS) or al-Qaida and who are fighting governments in Chad, Mauritania, Burkina Faso and Niger (the last of these also faces a separate conflict in its south-east involving Nigeria's Boko Haram militants and their various offshoots). Security has deteriorated sharply in Niger's neighbours, Mali (since 2012) and Burkina Faso (since 2015, with a notable increase in 2019). The Economist Intelligence Unit believes Niger will increasingly come to resemble these two countries in 2020 in terms of jihadi violence as its military increasingly fails to contain what were previously isolated pockets of violence along the border.

A local affiliate of Islamic State allegedly took responsibility for the attack, although this has not been officially confirmed. The latest incident has led Niger's government to request a three-month extension to the state of emergency, which covers the south-eastern and western parts of the country and was declared two years ago. The attack came just days before Niger's president, Mahamadou Issoufou, was due to meet with France's president, Emmanuel Macron, and the other West African heads of state in the so-called G5 Sahel group. The five-nation anti-jihad group was due to discuss France's military presence in the region (and the joint fight against the extremist groups based there), but this has now been postponed until early 2020.

Impact on the forecast

We continue to forecast that the security environment in Sahel countries will remain extremely poor in 2020-21 as the sub-region's weak states fail to contain a multi-faceted insurgency with increasingly international links.

Conflicts in Africa set to intensify in 2020

January 14, 2020: Political stability

Event

In early January data from the Armed Conflict Location & Event Data Project (ACLED, a US-based non-government organisation) showed that violence in Africa escalated in 2019.

Analysis

The security situation deteriorated across significant parts of Africa in 2019, which is in line with a general rise in protests and social unrest already noted by The Economist Intelligence Unit across the continent over the same period. ACLED recorded 12,053 violent incidents (including bombings, violence against civilians and battles) in Africa between January 2019 and the start of 2020, with 29,407 fatalities reported. That compares with the 11,461 reported incidents involving 27,858 deaths that ACLED recorded in Africa during the same period of the previous year. The rise in both violent incidents and related deaths in 2019 implies that conflicts in different parts of the continent will intensify in early 2020, as both non-state actors (such as the Nigerian jihadi group Boko Haram) and foreign powers (such as Turkey) step up their operations on the continent.

Violence occurred across all regions of Africa in late 2019 and this geographic spread will make it difficult to concentrate diplomatic efforts and peacekeeping resources effectively in 2020. In south-western Africa, post-election tensions in Mozambique resulted in incidents of violence between the ruling party, Frelimo, and its rival, Renamo. The security crisis in the Sahel has worsened, causing the temporary postponement of a meeting between the presidents of the G5 Sahel group of countries (a regional alliance fighting militant groups in West and Central Africa consisting of Mali, Niger, Burkina Faso, Mauritania and Chad) and France until January 13th 2020. In East Africa, the Somali militant group al-Shabab launched three terrorist attacks across the border into neighbouring Kenya in January 2020, one of which killed three US Defence Department personnel (including a US soldier). In nearby Ethiopia, security remains extremely fragile despite an ongoing loosening of previously tight restrictions by the central government. In North Africa, fighting in Libya seems likely to intensify as foreign powers increase their involvement in the country's civil war. The deepening involvement of Middle Eastern powers in entrenched African conflicts looks set to be another enduring theme in 2020, especially in the Horn of Africa and Libya.

Impact on the forecast

The data showing a rise in violent incidents and deaths in 2019 support our forecast that conflicts will intensify across Africa in 2020, in line with increased social unrest in many countries.

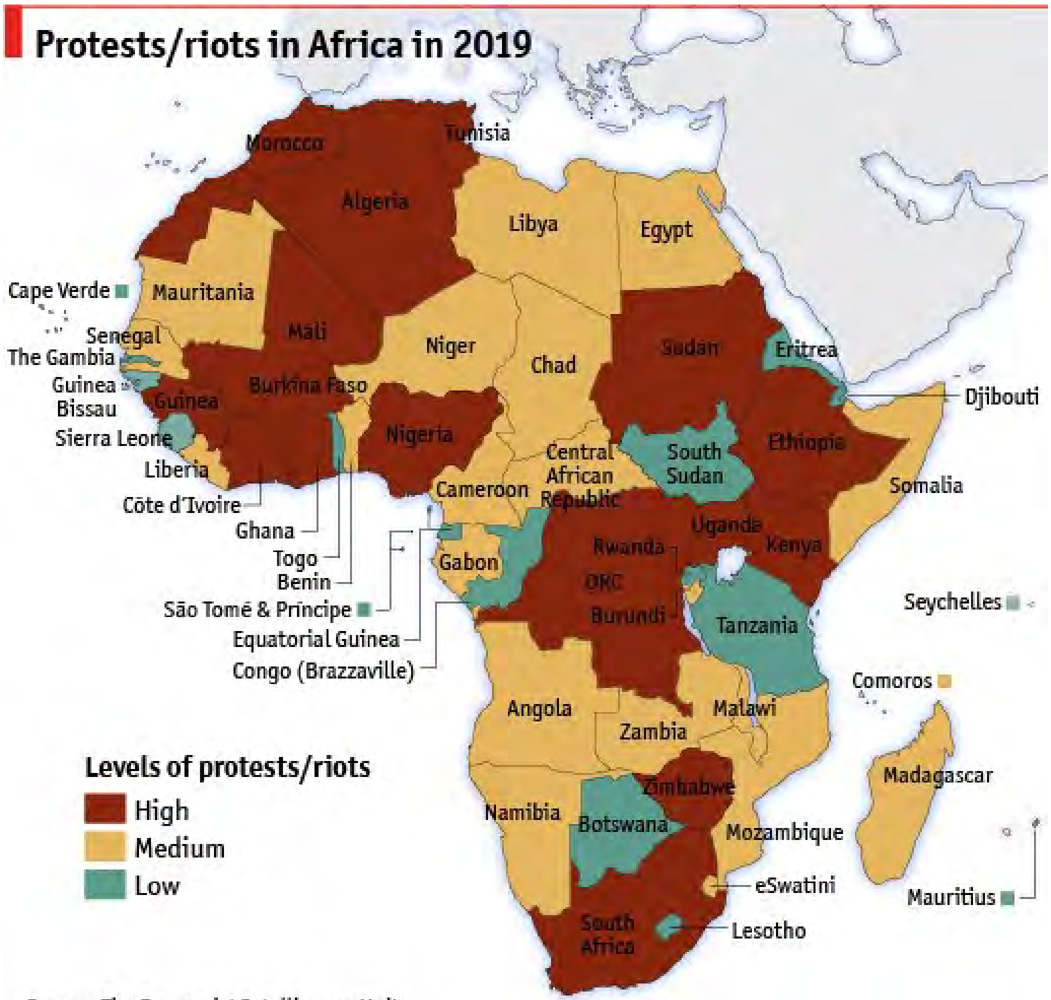
Analysis

Protests in Sub-Saharan Africa

December 31, 2019

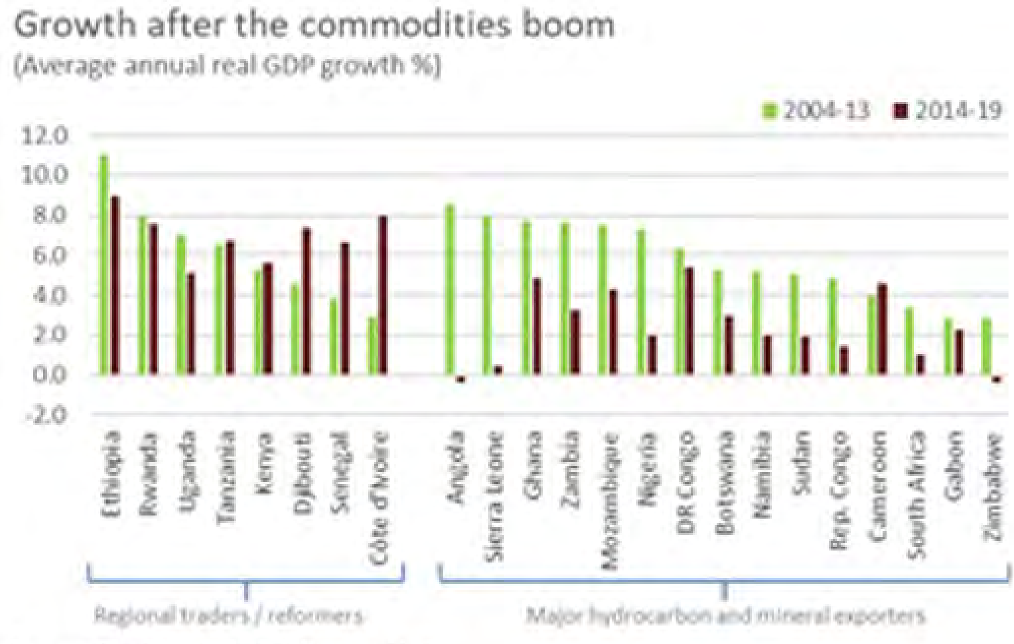
Sub-Saharan Africa has experienced its fair share of the mass protests that have erupted across the world in 2019. The affected countries vary considerably in terms of their economic structure and stage of development, political set-up and social fabric. Large mobilisations have occurred in Sudan, South Sudan, Ethiopia, Kenya, the Democratic Republic of Congo (DRC), South Africa, Cameroon and Nigeria, to name a few. The protests have been triggered by highly localised events and have differed from place to place in their participants, methods and goals. Despite these differences, there are some common underlying causes that unite the protests and present serious challenges for incumbent African leaders and their administrations as we head into 2020.

Various highly localised factors have triggered uprisings in Sub-Saharan Africa in 2019, which include rapidly rising bread prices in Sudan, planned redundancies and xenophobia in South Africa, disputed election results in Mozambique, attacks by armed militias in the DRC and the attempted arrest of activists in Ethiopia. In most cases, these triggers have been a tipping point whereby localised single-issue demonstrations have escalated into much larger and broader anti-government protests. Protests in many countries have reflected a view that governments are self-serving institutions that have been either unable or unwilling to tackle sensitive issues relating to economic need and opportunity, political oppression and freedoms, as well as poor governance and corruption. These concerns have been on clear display during the protests witnessed in Sub-Saharan Africa during 2019.



Source: The Economist Intelligence Unit.

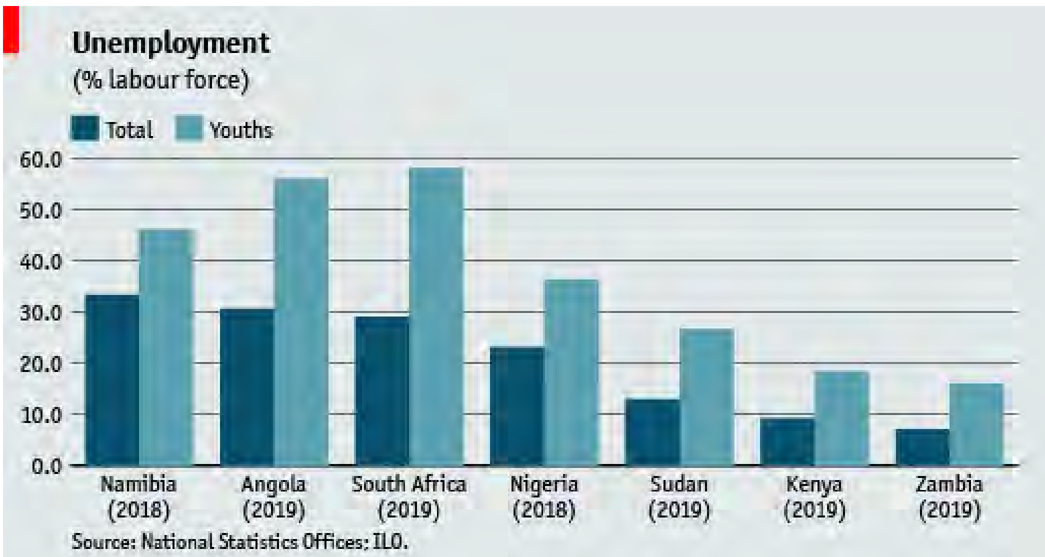
Economic need and opportunity represent an over-riding yet multi-faceted driver of anti-government sentiment and mass protests across Sub-Saharan Africa. The region boasts some of the fastest-growing economies in the world, abundant and lucrative natural resources, enormous and youthful populations, an expanding urban middle class, strengthening trade linkages and strong inflows of foreign capital. However, many countries in Sub-Saharan Africa retain severe income inequality, widespread poverty, high levels of unemployment (particularly among youths) and informal and insecure employment and often inadequate social safety net programmes.



Source: The Economist Intelligence Unit.

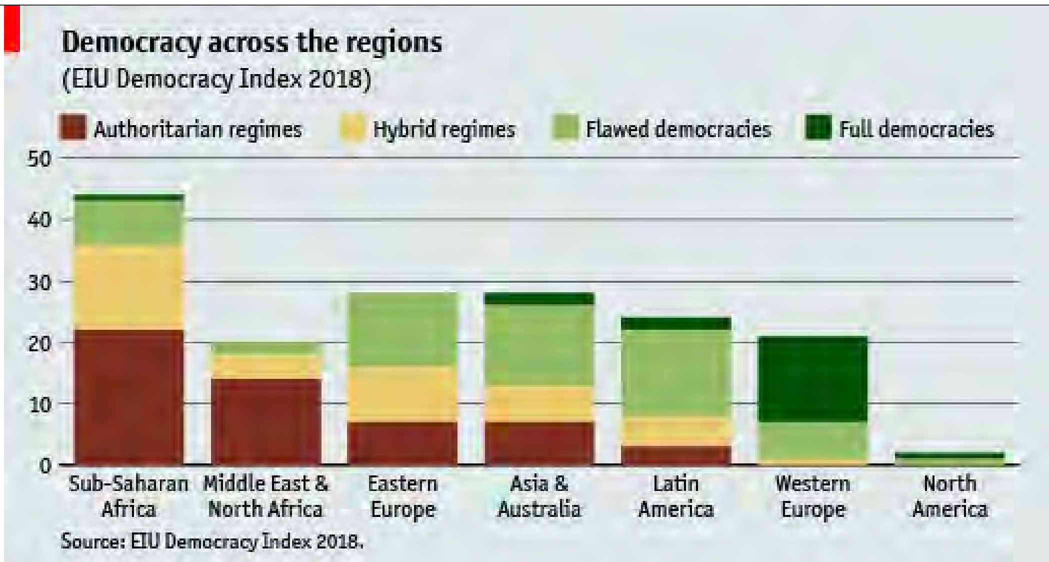
Many countries (especially the region's major oil, gas and mining nations such as South Africa, Nigeria, Angola, Zambia, Mozambique, the DRC and Sierra Leone) have struggled to cope with the downturn in commodity prices since 2014. The pre-2014 boom years have given way to more subdued growth rates in many parts of Sub-Saharan Africa, large fiscal and current-account deficits, rising debt levels, weak currencies and rapidly rising living costs. These developments have restricted the room for manoeuvre for some governments, led to a shift towards fiscal austerity, compounded poor public service provision and undermined job creation.

A toxic combination of high unemployment, the threat of job losses and the prevalence of insecure employment is an incendiary mix that has fuelled a wave of protests across Sub-Saharan Africa. Job-creation and household income stimulus programmes have been on the front burner for some time, but the region remains plagued by very high levels of general unemployment and much higher unemployment rates among the region's youths in the 15-24-year-old bracket. Meeting the demands of a rapidly increasing supply of youthful, urban, better educated and aspirational labour is proving to be a major headache for many governments. In addition to job creation, an additional and equally important problem is posed by the type of jobs on offer. A large majority of jobs in Sub-Saharan Africa (whether these are in the formal sector or much larger informal sector) provide insecure employment that entails low levels of pay, little to no job security and limited access to social protections.



Another facet of economic need that has unsettled citizens and brought them out on to the streets relates to widespread poverty, extreme income inequality and in some cases a long history of economic marginalisation. The UN reported that ten of the world's 19 most unequal countries measured on income distribution were found in Sub-Saharan Africa in 2017, and this regional profile is unlikely to have changed much in the subsequent two years. South Africa, the region's most developed economy, was ranked as the world's most unequal country in 2017, and Namibia, Zambia, the Central African Republic, Lesotho, Mozambique, Botswana, eSwatini, Guinea-Bissau and the Republic of Congo were also among the top 20 most income unequal nations worldwide. Concerns about income inequality and its drivers, as well as economic marginalisation, have proved highly contentious issues. For instance, mass protests by the Oromo and Amhara people of Ethiopia and the anglophone communities of western Cameroon are linked to a combination of low living standards, economic marginalisation and political exclusion. Similarly, the demonstrations that led to the removal of the long-standing president of Sudan, Omar al-Bashir, in April have close links to many years of economic woes, extreme poverty and unequal opportunity in wealth creation and political influence. Even in South Africa, the region's most diverse economy, large-scale protests have been driven by major societal inequalities and the demands for better living standards, as well as rampant corruption and poor public service delivery.

Political oppression and the lack of political freedoms have played a central role in driving angry anti-government protests in Sub-Saharan Africa during 2019. Major political grievances relate to disillusionment with long-standing, difficult to displace incumbent national leaders and their political parties. Elections have become more common across Sub-Saharan Africa over the past decade, but the region has some of the world's longest-serving heads of state and governing political parties, as well as the highest number of authoritarian and hybrid regimes of any major region in the world.



Public protests have contributed to a change in national leader in countries such as South Africa, Angola, Ethiopia, the DRC and Sudan over the past 12 months, but the dominant political party retains a tight grip on power. Political inertia and concentrated political power and influence remain major sources of public discontent and social unrest. Rapidly growing internet coverage and mobile networks in particular in Sub-Saharan Africa have facilitated the spread of information within countries and across borders. This evolving infrastructure, together with the quick uptake of social media and 24-hour news coverage, has helped mobilisations in one location to feed discontent and unrest elsewhere. Some African governments are fully aware of the threat posed by uncontrolled media outlets and have taken steps to reassert their grip on available information and key messaging. Some governments have clamped down on press freedoms, curtailed internet access and outlawed opposition groups. An international digital rights advocacy organisation, Access Now, has reported that there were 13 nationwide internet shutdowns across Africa in 2018, and this has been followed by new or continued shutdowns in Algeria, Ethiopia, Chad, Liberia, Malawi, Sudan and Zimbabwe in 2019. In addition to this, some governments are levying internet usage or social media taxes that have the (probably intended) consequence of in effect restricting access to or dissemination of information online. These tactics often run in parallel with state-sponsored media plans that push favoured lines and information or disinformation as claimed by some opposition groups. The success of these tactics tends to be short-lived and do little to quell the lingering feelings of resentment among activists and the wider population. Indeed, restricted freedom of speech and a lack of accountability among national governments have often served to incite further unrest and demonstrations.

Steady emergence of new leaders brings hope for change

A new group of national leaders has recently taken up office in some of the region's major economies, including Abiy Ahmed in Ethiopia, João Lourenço in Angola, Cyril Ramaphosa in South Africa, Félix Tshisekedi in the DRC and Muhammadu Buhari in Nigeria. These leaders represent a break from the past and have come to power on a platform of economic and social reforms, promises to tackle corruption and commitments to resolve local conflicts. Long-standing political parties remain in place, but there are some positive early signs of change. For instance, Mr Ahmed is shaking up the political landscape in Ethiopia and received the Nobel Peace Prize 2019 for his efforts to resolve the long-running border dispute with Eritrea. Mr Lourenço has moved quickly to dismantle the power base of his predecessor, Mr Ramaphosa is pushing hard with his economic and social reform agenda, and Mr Buhari is making some tentative steps towards tackling insecurity and corruption.

However, expectations are running high, and any faltering in the speed or direction of progress could quickly herald a new bout of disruptive protests and demonstrations. There is no doubt that African leaders will continue to be confronted by the thorny issues of income inequality, widespread poverty, high youth unemployment, job insecurity, poor public services, corruption and cronyism, entrenched political systems and restricted civil freedoms, not to mention the brutal effects of climate change. Anti-government mass protests will most certainly continue into 2020, given the challenges that remain and the growing demands posed by youthful, better educated and urbanised populations. The ride could easily become much bumpier in 2020.

G5 Sahel countries meet in France

January 22, 2020: International relations

In mid-January 2020 leaders of the G5 Sahel countries (Burkina Faso, Chad, Mali, Mauritania and Niger) met France's president, Emmanuel Macron, at a security summit in Pau, in southern France. The aim of the meeting was to finalise a revamp of their joint strategy to respond to an accelerating wave of jihadi attacks in West Africa. Since September 2019 the Sahel region has been the target of a series of brutal attacks by jihadis that have inflicted heavy casualties among national armed forces; on January 9th about 89 Nigérien troops died in an assault on the Chinagodrar garrison, near the border with neighbouring Mali.

In similar attacks concentrated in the "three frontiers region", where Burkina Faso, Mali and Niger converge, the militants have deployed heavy weapons and sophisticated tactics in an effort to drive back the state presence at all three countries' borders to create a militant safe haven. Coastal West African states are now stepping up their political and military engagement with the Sahel, amid concerns that Niger, Burkina Faso and Niger are too weak to prevent their territory from being used to stage attacks on neighbouring regional states.

France demands regional backing

It has become clear that the existing regional and international military response, where France's Operation Barkhane supports the local Sahel countries' national armies and their special G5 joint force, is no longer adequate to control the security situation. Conditions in the Sahel have been deteriorating rapidly since early 2019 and look set to intensify further this year. Meanwhile, in the aftermath of a November 25th helicopter crash in Mali that killed 13 French soldiers, Mr Macron demanded a public demonstration of solidarity and gratitude from the G5 leaders at a time of rising anti-French voices in some Sahelian capitals.

However, the impression that African leaders were being summoned by the former colonial power caused further resentment and partially—alongside a massacre of local troops in Niger that killed 71 soldiers—led to the postponement of the Pau summit until January. Mr Macron has sought to defuse the sour public mood by visiting Niger, where he paid his respects at the memorial to the 71 troops, and emphasising that France will only fight where it has been invited to do so. The rescheduled Pau meeting was intended to send an important political message—addressed, primarily, to the public in Sahelian countries and also in France—that Mr Macron was keen to show that France's post-colonial era of interference in its former colonies was at an end, but that this would also come at a cost (including less military backing unless Sahelian leaders publicly endorse French efforts).

Resilience of the Sahel jihadi groups

France has received increasingly vocal criticism in countries such as Mali and Burkina Faso. Radical or populist resentment of the military presence of the former colonial power is reinforced by the French forces' inability to end the terrorist violence; moreover, Malian nationalists based in the capital, Bamako, accuse the French of protecting Tuareg separatist groups in the country's far north-east, who control the area around the city of Kidal. Meanwhile, in France, the news of ongoing combat losses risks stirring popular doubts about the purpose of France's Sahel deployment, which Mr Macron is keen to head off quickly.

For the G5 presidents and Mr Macron, therefore, the Pau summit was a stage to remind their respective citizens instead about the seriousness of the Sahel crisis and the international risks (for France) that it poses (with parts of the Sahel region becoming lawless zones where international terrorist networks can plot attacks against European states in safety)—and therefore why French troops are deployed. The meeting also served as a platform to announce a number of practical shifts in military strategy, resulting from the rethink over the past four months about how to tackle entrenched Sahelian jihadi groups.

Uniting forces to conquer

The allies' main military effort will now be concentrated on the three frontiers region and will aim in particular at tackling Etat islamique dans le Grand Sahara (EIGS), one of several local franchises of Islamic State (IS) based in West Africa. This is the faction that has been responsible for many of the most violent recent attacks in the region. To enhance their combat effectiveness, troops from the Sahel national armies, their joint G5 regional anti-terror force and France's Barkhane force will now all operate under a single integrated command. To supplement its current manpower of 4,500 troops, France is sending a further 250 to act as reinforcements; the allies will also step up efforts to enhance their regional intelligence-gathering capacity.

However, the Pau meeting also stressed the need to restore the presence of the state in areas from which it has retreated because of widespread insecurity in recent years. In many parts of rural Mali or Burkina Faso, the civil administration is now non-existent, and local health and education services have evaporated; for example, 1,000 schools have closed in Burkina Faso following jihadi attacks on students and teachers. Many public servants have fled to Bamako or Ouagadougou (the capital cities of Mali or Burkina Faso) because they feel threatened by regional jihadi or criminal groups that are based in their local regions. The strategy revamp seeks to target the military effort where it is most needed. If this can begin to boost the momentum against the militants, it may create space for a gradual restoration of essential state administration and basic services.

However, we believe that it will be a huge challenge to provide the security that will persuade staff to return to provincial areas, permit the reopening of schools and the resumption of other vital services, and facilitate the revival of development programmes and economic activity. Moreover, even if the military effort succeeds temporarily, the case for a relaunched development effort has been recognised for more than a year, but funding for it has lagged (which parallels earlier problems with gaining military funding for the G5 Sahel's counter-terrorism force). A G5 development meeting in Nouakchott (the capital of Mauritania) in December 2018 mobilised commitments of €2.4bn (US$2.6bn) for a designated list of projects drawn up by the G5 countries themselves.

Of this, about €1.3bn was pledged by the Alliance Sahel (an umbrella grouping of European donors, the World Bank, the African Development Bank Group and the United Nations Development Programme), and the G5 Sahel governments themselves committed to contributing 13% of the sum. However, it has taken time to finalise detailed project plans and put security measures in place before money can be disbursed and work can start. We remain sceptical that sufficient development funding will materialise and be disbursed in time to benefit from any security gains made in the aftermath of the Pau summit.

Economy

Forecast updates

Nigeria to re-open its borders

November 18, 2019: Economic growth

Event

On November 14th Ghana's deputy minister for foreign affairs and regional integration, Mohammad Habibu Tijani, announced that Nigeria had agreed to re-open its borders.

Analysis

The Ghanaian government had previously managed to negotiate an agreement in October with their Nigerian counterparts, allowing a temporary corridor for Ghanaian goods to enter Nigeria. Mr Tijani's announcement seems credible, therefore, although no official announcement by the Nigerian government has yet been made. Nigeria initiated the crisis in August when it partially closed its western border with Benin, citing concerns over smuggling and insecurity. Matters escalated in October, when the Nigerian national customs agency announced the indefinite closure of all the country's borders to foreign goods. While the closure seems to have been temporary, as we had forecast (and therefore not warranting any major changes to our regional outlook in 2020), the incident is likely to stall further momentum towards regional integration, amid widespread anger among Nigeria's neighbours (and the wider region) at its heavy-handed protectionist stance.

The months-long border closures reinforce our view that Nigeria will continue to operate a protectionist agricultural policy, despite having agreed to sign up to the region-wide African Continental Free-Trade Agreement. With the country unlikely to open its agriculture sector up to foreign competition, the smuggling of rice and other food stuffs, which sparked the original border closure with Benin in August, is likely to resume, whatever mechanism is ultimately agreed upon between Nigeria and its neighbours to improve scrutiny of cross-border trade. Even if the authorities of neighbouring countries wished to comply (and, in the case of Benin, whose economy received a significant boost from the illicit rice trade with Nigeria, this is doubtful), other local states such as Niger or Cameroon, who are battling several different insurgencies on their territories, simply lack the security or the spare resources to enforce border security properly in the way Nigeria would like. Tensions could, therefore, re-appear later in the forecast period, further damaging moves towards regional integration in West Africa.

Impact on the forecast

The end of the border closure reinforces our forecast that the Nigerian government's high-handed move will have no lasting impact on the macroeconomic fundamentals of ECOWAS and neighbouring countries in 2020. The term of Nigeria's current (and deeply protectionist) president, Muhammadu Buhari, expires only in 2023, however, and we see little chance of progress towards ECOWAS integration where this conflicts with his Nigeria's national interests as Mr Buhari perceives them.

New Dakar Consensus emerges

December 19, 2019: Policy trends

Event

In early December Senegal, the IMF, the UN and a French think-tank, the Cercle des économistes, organised a sustainable development conference in Dakar (the Senegalese capital), at which the heads of state of six West African countries—Senegal, Niger, Benin, Togo, Burkina Faso and Côte d'Ivoire—raised grievances with the IMF.

Analysis

The presidents expressed resentment at the tough financial criteria imposed by the Fund on West African countries, with Benin's president, Patrice Talon, citing the fiscal deficit target of 3% of GDP as an example, while Senegal's president, Macky Sall, pointed out that the region's debt levels were far below the global average. Côte d'Ivoire's president, Alassane Ouattara, argued that the deficits of African economies should be assessed in a more flexible manner because investments in Sub-Saharan African countries take longer to produce an economic impact. The presidents of Niger and Burkina, Mahamadou Issoufou and Roch Marc Christian Kaboré respectively, pointed to the heavy security costs their governments face.

Mr Sall presented this critique as the new Dakar Consensus—in contrast to the long-established Washington Consensus that advocates financial discipline and the market economy. But in reality it represents a revision rather than a radical alternative. None of the African leaders present were proposing the abandonment of fiscal discipline. They want two main things: more flexibility in IMF assessments of their capacity to take on debt and greater understanding of the development and security challenges they face. They know that the IMF's stance can influence perceptions among international credit rating agencies—and thus the real cost of funds when either foreign investors or West African governments seek to raise money for new projects.

The IMF has agreed to better reflect and integrate the impact of external economic shocks into its analysis and to do more to dispel perceptions of Africa as an inevitably high risk environment for investors. However, the position of other international institutions is unlikely to change significantly, and the region's leaders still face the reality that perceptions of poor governance remain a powerful influence. For instance, the jailing of Khalifa Sall, which prevented him from running in Senegal's presidential election, did serious damage to the country's international reputation for stable democratic governance.

Impact on the forecast

We do not expect any significant revisions to the IMF targets that these West African countries have adopted under various programmes with the Fund in the short term. Our 2020-21 policy trends forecast is thus unchanged.

Delays expected in 2020 over activating free-trade zone

January 15, 2020: Economic growth

Event

At end-December the president of the African Development Bank (AfDB), Dr Akinwumi Adesina, was endorsed by the Economic Community of West African States (ECOWAS) at the 56th ordinary session of the Authority of Heads of State and Government of ECOWAS, for a second five-year term at the AfDB from 2020.

Analysis

The ECOWAS endorsement came in part for Dr Adesina's work on pushing through the African Continental Free Trade Area (AfCFTA) in 2019 (a key component of the AfDB's wider push for deeper regional integration in Africa under him). Dr Adesina estimates that the continent-wide free-trade zone (FTZ) will be worth US$3.3trn once it formally begins on July 1st 2020. Officially, the AfCFTA came into force on May 30th 2019 after being ratified by 22 countries (the minimum number of signatory countries required to activate enactment of the agreement's provisions, without which the agreement would have lain dormant; 54 African states have signed the agreement and 27 have ratified it). However, international trade agreements are not self-executing and African countries were given until mid-2020 to prepare for it actively.

Despite this grace period, The Economist Intelligence Unit remains sceptical as to whether most AfCFTA signatory states will be ready to implement the agreement by the July 2020 deadline—many because their governments are too distracted or uninterested to implement it meaningfully. Some larger African countries, such as Nigeria, are still ambivalent about the agreement and, therefore, hesitant to push (and support) their smaller, less developed neighbours into preparing for its activation. Other important economies, such as Ethiopia and South Africa, are gripped by domestic crises that are absorbing reformers' energies. Moreover, the institutional frameworks to deal with legal issues arising from implementing AfCFTA (such as the non-complementarity of many goods across different markets) remain too weak in many African states to be ready, even with over a year's notice. Sluggish implementation of necessary legal changes and other obstacles will, therefore, see the vast majority of African states fail to meet the July 2020 deadline. While pan-African institutions like the African Union (AU) and the AfDB will continue to push for action, we expect the agreement's activation will be postponed (de facto if not de jure) until at least the end of 2020.

Impact on the forecast

In line with the expected postponement of AfCFTA's implementation, we maintain our forecast that substantive benefits from the treaty will not occur within the 2020-24 forecast period.

Defence could displace development spending in West Africa

January 15, 2020: Fiscal policy outlook

Event

In late December the president of the African Development Bank (AfDB), Dr Akinwumi Adesina, warned at the 56th Ordinary Session of the Economic Community of West African States (ECOWAS), Authority Heads of State and Government that West African governments were increasingly replacing spending on development with spending on defence.

Analysis

This has not always been the case across the region. In conflict-ridden Burkina Faso, a hike in defence spending failed to materialise, despite rising insecurity, as the government's 2020 national budget chose to avoid the deep cuts to social spending that would have been needed to fund extra defence spending (in what is an election year for that country). However, in his speech, Mr Akinwumi listed Burkina Faso alongside Niger, Mali, Chad and Nigeria as examples of West African countries where defence spending had been rising rapidly in recent years. He also revealed that the AfDB was in discussions with the IMF (which is already revising its approach to West Africa) over developing new financial instruments to help conflict-afflicted countries in the region to cope better with exogenous security-related shocks (such as cross-border attacks by militants based in neighbouring countries, such as Mali and Burkina Faso).

The AfDB leader's fear that security spending could crowd out more economically useful development spending in West Africa in 2020 have some basis. As threats from transnational Sahel-based militant groups grew in 2019, the worsening security situation in Nigeria, Burkina Faso and elsewhere drew the attention of the area's regional organisations. In September 2019 ECOWAS released a statement at its annual summit, announcing a US$1bn plan to combat terrorism in West Africa in 2020-24. In October leaders at a West African Economic and Monetary Union (WAEMU, a currency and customs union between mostly francophone countries within ECOWAS) summit in the Senegalese capital, Dakar, pledged US$500m to tackle regional extremist groups (although this may simply be restating a pledge made at the earlier ECOWAS initiative). The security crisis in West Africa is increasingly attracting the attention of multilateral and regional organisations (who are worried both by the negative impact of security costs and shocks on otherwise positive regional economic growth projections), alongside Western powers and the G-5 Sahel group.

Impact on the forecast

Years of underfunding by international donors lead us to remain sceptical that sufficient external funding will be found to relieve G-5 countries of their rising security costs in 2020-21, despite the heightened profile of West Africa's security challenges.

Analysis

Inauspicious timing for 2020 launch of "eco" currency

November 12, 2019

Leaders from the Economic Community of West African States (ECOWAS) have decided that their long-planned common currency will be called the eco and will be launched in 2020. France has reaffirmed its openness to reform of the CFA franc, which eight members of ECOWAS, as part of the Union économique et monétaire oust-africaine (UEOMA), currently use. The currency is pegged to the euro and is guaranteed by France, but the French government has now reconfirmed that it will back reform if African leaders want it. But the immediate value of switching currency will be lost if UEOMA countries cannot convince others in ECOWAS to sign up.

ECOWAS states collaborate closely on political and security matters, but economic integration has lagged behind. The bloc first adopted the goal of a common currency as far back as 2000, but until recently it was a distant aspiration. The project is now establishing a basis in concrete monetary proposals, but there remain serious obstacles, both practical and political.

- There are sharp contrasts, for example, between the needs of Nigeria, as a large oil exporter looking to diversify its economy using import controls, and those of its smaller neighbours reliant on agriculture and mining.
- A lack of consensus on monetary policy. UEMOA maintains tight monetary discipline, imposed by its common central bank based in Senegal and required by the peg to the euro. By contrast, Ghana and Guinea have taken a more relaxed monetary approach, with bouts of higher inflation. Nigeria uses monetary policy to support an overvalued official exchange rate.
- Difficult questions also exist over political authority and sovereignty. For the CFA franc countries, which in the past 60 years have only devalued once (in 1994), it would mean exchanging their currency anchor for governance by a central bank influenced by other countries proposing a more relaxed monetary stance. And in reality the monetary union could easily translate into de facto Nigerian control. This is if Nigeria could be persuaded to join, and abandon an economic system propped up by protectionism.

Nevertheless, over the past 20 years West African leaders gradually crystallised their commitment to the notion of a common currency, and there have been numerous intervening steps towards such integration. These include a Common External Tariff (2015), a market and regulator for crossborder electricity trade (2018) and the African Continental Free Trade Area (2019). Practical realities have, however, revealed an element of romantic idealism in the plans. In October Nigeria closed all its land borders with neighbouring countries. Ostensibly this was aimed at stopping smuggling (which reflected efforts to bypass import bans), but a desire to support the country's trade balance and the overvalued naira is also likely to have influenced the decision. It is hurting the economies of its neighbours, and casts serious doubt over Nigeria's commitment to pan-African trade.

Pressure for change for some

Despite serious challenges, political pressure to ditch the CFA franc, especially from urban youth and radical intellectuals, has gradually altered the mood across UEMOA, and that bloc is leading calls for the new currency. Critics of the CFA franc regard it as a hangover from French colonial rule and a tool for perpetuating French influence. They resent the fact that member states place part of their foreign-exchange reserves in deposit accounts at the French Treasury, as part of an arrangement to underpin the latter's guarantee of the CFA franc's peg to the euro, at CFA655.957: €1. Although the reserves system is essentially a technical procedure, the notional transfer of savings to the region's former metropole has become a totemic issue. Clearly this is a UEMOA-specific complication, and for the rest of ECOWAS, much of which is anglophone with no historical ties to France, there is less of the same political pressure for a new monetary system. It is asking a lot of these countries to risk sudden revaluation or devaluation of their currencies and to give up monetary independence without there being the same background reasons for doing so.

Obstacles removed

On its own, a shift in the political weather might not have been sufficient to push the UEMOA states towards change. But other factors have altered too, leading the bloc to look more favourably on the idea of the eco. Most notably, France is open to change. On a visit to Burkina Faso in 2017 the French president, Emmanuel Macron, said that if countries using the CFA franc opted to change their currency arrangement then his government would oblige. In October 2019 his finance minister, Bruno Le Maire, reaffirmed the message, albeit in more nuanced terms by stressing that the decision was one for African governments.

Converging step by step

The decision at a June 2019 ECOWAS summit to impose convergence criteria for membership of the eco was an essential step towards a new currency, mirroring what European countries did in launching the euro. But it also laid the diplomatic groundwork. States can adopt the eco at different times, but the currency could be launched as soon as a core of member states was ready to take part. Stated differently, countries not using the CFA franc like Nigeria need not hold up the launch. The benefits of a single currency rapidly diminish, however, if the region's biggest market is not a part of it.

UEMOA states are the first movers

The eight CFA franc countries later met for a summit on July 12th and the Ivorian president, Alassane Ouattara, then announced that the group would become the initial adopters of the eco. A phased strategy has been envisaged.

- In 2020 the UEMOA states will replace the CFA franc with the eco. Instead of being kept in French accounts, the "overseas" slice of foreign-exchange reserves will be divided among deposit accounts at the central banks of major trading partners. Initially they will maintain the fixed rate to the euro but de facto the rules and institutions of UEMOA will become the start-up structure for the new currency. The intention to retain the existing peg reflects past experience; devaluation of the CFA franc in 1994 was met with furious protests from urban populations angry about the rise in the price of imported basics such rice, meat and wheat flour.
- Over subsequent years the technical ground will be prepared for an eventual move to a new exchange rate based on a basket of the currencies of major trading partners—which will therefore have a hefty US dollar component, alongside the euro.
- Other countries will join the eco when they are ready and once the currency is based on the basket valuation.

The eco could simply be the CFA franc rebranded

The biggest political obstacles to the first stage of the reform and the initial creation of the eco among UEOMA states—which are best prepared for it—now seem to have been largely overcome, but completing the phased introduction of a floating currency remains a multi-year and possibly decades-long undertaking. Moving away from the French guarantee invites severe levels of currency risk at a time when the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, the UEOMA bloc's central bank) has declining foreign reserves with which to support a new currency that breaks from France. A slowing global economy, which has consequences for the price of oil —a key export among members of UEOMA—means that the timing of a 2020 launch is inauspicious. It would appear that there is no rush judging by official comments either. Benin's president, Patrice Talon, has said that leaders in UEOMA want foreign reserves transferred from France to the BCEAO to afford it more monetary control, but he refused to put a timeframe on when it would happen.

There may also be a desire to wait until Nigeria changes its insular approach to national development, if indeed that ever happens. Currently the government there protects agriculture and manufacturing through a ban on hard currency being used for imports. If all regional trading partners used the eco, then the tools currently being used for protectionism would be completely undermined. Without a shift on this, the eco just becomes a cosmetic rebranding of the CFA franc minus the guarantees that currently make the peg a credible foreign-exchange regime. Unless Nigeria can be persuaded to join, the eco will provide little in the way of economic benefit, and could even result in a loss in investment. It may be that the eco remains on the shelf for several years (or more) to come.

Remittances surpass FDI flows into Sub-Saharan Africa

December 11, 2019

Remittance flows into Sub-Saharan Africa (SSA) increased by 10.3% to US$46.2bn in 2018, and provisionally rose again in 2019, according to updated World Bank figures in October. The sum comfortably surpassed foreign direct investment (FDI) inflows of US$31.6bn in 2018—based on the latest *World Investment Report* from the UN Conference on Trade and Development (UNCTAD)—highlighting the importance of remittances to the balance of payments and the wider economy. FDI may be more valuable on a per dollar basis than remittances, of which a significant portion is used for consumption or for investment in less productive assets (such as real estate)—and sometimes for political party funding—but FDI is more volatile, is often focused on minerals and oil (which have limited employment potential) and can be withdrawn. Diaspora remittances will continue to make a vital contribution to several SSA economies, facilitated by information and communications technology (ICT), although, as with FDI, not all countries are benefitting.

Certain conditions need to be met for a country to receive a high level of remittances. Key requirements are a sizeable expatriate population (preferably skilled and living in richer countries), a functioning banking system (both to facilitate and to measure financial flows) and, increasingly, an accommodating ICT environment, to speed up transfers and reduce their costs, which remain high in most parts of SSA. Countries with close links to the former leading colonial powers, the UK and France, are well represented in the remittance league.

The leading remittance recipients

Topping the SSA remittance stakes is Nigeria, by a large margin, with inflows rising by 11% to US$24.4bn in 2018—dwarfing FDI of US$2bn—and accounting for more than half of the regional total. Nigeria's dominant position stems from having the largest population in SSA (191m) and high levels of remittances per head. Ghana lies second on the list (with US$3.5bn in 2018), followed by Kenya (US$2.7bn), Senegal (US$2.4bn), the Democratic Republic of the Congo (DRC; US$1.8bn), Zimbabwe (US$1.7bn), Uganda (US$1.2bn), Mali (US$0.9bn), South Africa (US$0.9bn) and Togo (US$0.5bn).

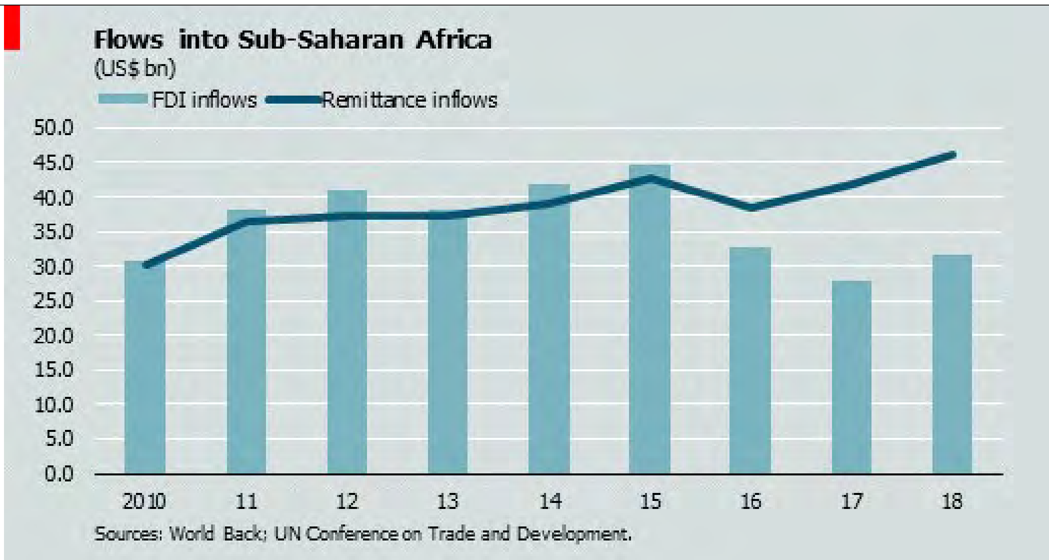
In per capita terms, a slightly different picture emerges. Excluding four small island states (Cabo Verde, Comoros, São Tomé and Príncipe and Seychelles), the leading per capita recipient is Lesotho—on US$201 per head—because of large flows of migrant workers to South Africa. For the same reason eSwatini lies sixth in the per capita list (on US$106). As a result, South African remittance flows are negative on a net basis, unusually for SSA. Senegal comes second (on US$156 per head), followed by Nigeria (US$133), Ghana (US$128), the Gambia (US$112), eSwatini, Zimbabwe (US$104), Liberia (US$82), Togo (US$64) and Djibouti (US$61). Kenya lies in 11th place on US$58 per head. The top 10 countries in terms of remittances as a proportion of GDP are very similar, but South Sudan and Mali enter the list at the expense of Djibouti and eSwatini.

Remittances and stability

The evidence is not clear cut as to whether more stable countries, both in political and in economic terms—such as Ghana, Senegal and South Africa—tend to attract higher remittance flows. Strong remittance flows to Nigeria (which is less stable) and especially to the DRC and Zimbabwe (which are both unstable) show that remittances are driven as much by necessity, as by opportunity. In Zimbabwe's case, remittances are a lifesaver for many households. The question of whether currency stability facilitates inflows is similarly uncertain. Senegal, Mali and Togo no doubt benefit from their mutual currency's fixed link to the euro, which gives greater certainty to senders and recipients of funds. The rand monetary zone (including eSwatini, Lesotho and Namibia) similarly benefits flows in southern Africa, despite the South African currency's volatility vis-à-vis the US dollar. From another perspective, strong flows to countries such as Nigeria and Ghana suggest that currency weakness is not always a major impediment to remittances, and can sometimes boost flows, because recipients gain more in local currency.

Correlations with FDI

A degree of correlation exists between the leading recipients of remittances and FDI but there are also outliers. Six countries feature in the top 10 for both remittances and FDI inflows—Nigeria, Ghana, Senegal, South Africa, Kenya and Uganda—and in all cases, except South Africa and Uganda, remittances exceeded FDI in 2018. Stronger in FDI but weaker in remittances are Congo, Mozambique, Tanzania and Ethiopia, with the latter suffering from weak, state-run banks and ICT firms. Planned reforms in Ethiopia, including the opening of closed sectors to private firms, could give a major boost to remittances, given its large expatriate population, especially in the US. Conversely, Mali, Senegal, Togo and Zimbabwe are weaker on FDI but stronger on remittances. As a qualification, however, measuring flows of both FDI and remittances in SSA is difficult and the data are subject to frequent revision.



To maximise the benefits, SSA governments should make efforts to facilitate remittances, in line with longer-standing policies to promote FDI. Action to boost remittances can be indirect, such as nurturing the emergence of a dependable and efficient financial and ICT framework, and also direct, as illustrated as Kenya's now-expired amnesty for repatriated funds, which gave a significant boost to remittance inflows in 2018. Senegal's decision to create parliamentary seats for the diaspora in the 2017 legislative election is also a potential remittance-booster, by giving expatriates a direct political stake in their home country. Remittance flows also face threats, especially tougher policies towards migrant workers in the key US market (the main source of remittances for Kenya, for example) and in some EU countries, such as Italy. Possible links between remittances and money-laundering are under-researched, but could cause problems in future. Despite some challenges, remittances will remain a key source of funding in SSA, bolstered by digital innovation.

Farewell CFA franc, hello “eco”

January 16, 2020

West Africa is laying the groundwork for a new currency called the "eco", which at least eight countries (Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo) hope to roll out by the end of 2020 to replace the CFA franc. This historic move has generally been welcomed at a political level both by regional leaders and France, which currently has a role in managing the CFA franc, but economic obstacles litter the path ahead. Primarily this centres on the troubles of a peg to the euro as opposed to exchange-rate flexibility and monetary sovereignty.

Created by France in 1945, the CFA franc, originally pegged to the French franc and then the euro, was implemented in France's former West and Central African colonies. The CFA franc is still used in two zones, one in West Africa and the other in Central Africa (which includes Cameroon, the Central African Republic, the Republic of the Congo, Gabon, Equatorial Guinea and Chad). It is a colonial-era arrangement that survived the region's independence and the decades since, despite regular criticism locally for undermining the financial and monetary sovereignty of member countries. The eco will go further than just replacing the CFA franc, however. Its architects envisage all 15 countries within the Economic Community of West African States (ECOWAS) joining up eventually. Central banks from within the bloc have been meeting to work out a roadmap for their eventual adoption of the eco.

The rising spirit of pan-Africanism

At a political level, a joint announcement in December on the eco being adopted in 2020 by the French president, Emmanuel Macron, and his Ivorian counterpart, Assalane Ouattara, made clear that a currency change is coming after several decades of planning for one, at least for CFA franc-using countries. These sit in a subset monetary union within the ECOWAS bloc, the West African Monetary and Economic Union (UEOMA). France's wish to reshape diplomatic relations with its partners in West Africa was emphasised, as was UEOMA's aspiration to regain monetary sovereignty. The push for a 2020 launch coincides with a wider drive for deeper continental integration under the African Continental Free Trade Area (AfCFTA) agreement, which 54 out of 55 countries have joined. Both are lofty pan-African ambitions, leaving a great deal for policymakers to catch up with or fall behind on. UEOMA countries can easily switch over to the eco and are likely to. But the project stopping there means that the size of the union would be no larger than it is now, and pan-Africanism would be no deeper. For this reason, supporters of the eco argue that widening its usage beyond UEOMA is important for cutting transaction costs and expanding cross-continental trade.

ECOWAS not all that united

Getting the other ECOWAS states to start using the eco is a major obstacle, however. France will not govern the currency anymore, and its representative on the CFA franc currency board is stepping down. In addition, UEOMA countries would not have to store 50% of their foreign-currency reserves with France anymore. However, the ecowould remain pegged to the euro and will remain (informally) guaranteed by France, therefore limiting the break away from the current fixed exchange rate. Upholding the peg is important for UEOMA countries. The peg has not been devalued since 1994, and to do so now would necessitate a major, highly inflationary correction. By the same token, however, non-UEOMA countries within ECOWAS would need to meet the peg through a revaluation, burning through their foreign reserves and hurting export-oriented domestic industries in the process. Non-UEOMA countries would also be required to meet four essential criteria: a single-digit inflation rate at the end of each year, a fiscal deficit of no more than 4% of GDP, central bank deficit financing of no more than 10% of the previous year's tax and gross external reserves covering imports for a minimum of three months. Barring Cabo Verde, no ECOWAS country would meet these criteria with ease. The eight UEOMA countries that vowed to join the eco would certainly fail, as is the case with existing convergence criteria for managing the CFA franc. But they do share a monetary cycle that ensures low inflation and protects foreign reserves. Other ECOWAS countries have far more varied (and often erratic) fiscal and monetary agendas, which would work to disrupt the harmony and function of a consolidated monetary union. For example, non-UEOMA countries in ECOWAS have annual inflation rates that vary hugely, from less than 1% in Cabo Verde to over 22% in Liberia. Their average inflation rate (taken from latest data from each) is about 11%.

An unlikely reach beyond UEOMA

Not only would a regionwide "eco zone" have to include economies with varying macroeconomic policies and degrees of development; it would also encompass different ideas about protectionism and trade. For example, Nigeria's inflation rate is high, at over 11%, partly because of foreign-exchange restrictions on agricultural imports, including from West Africa (where land borders have been closed to trade for several months). Moreover, Nigeria is the largest market in the region and would be the jewel in the crown of any ECOWAS-wide shared currency. It seems a remote if not impossible prospect that Nigeria would adopt the shared currency and forgo the monetary independence that allows for protectionism, which has become a central tenet of the country's development agenda. Indeed, "eco zone" countries will need to rigidly mirror the policy direction of the European Central Bank.

Nevertheless, the proposed currency union has garnered some serious interest beyond UEOMA, notably from Ghana, which claims that it wants to join. As a caveat, the government there also urged the region to implement "a flexible exchange-rate regime", which is not a direction in which the eco project is moving. Even if the eco was liberalised, which would widen its appeal within the rest of ECOWAS (the peg has hampered development of manufacturing in UEOMA), smaller economies in the bloc would risk being dominated by bigger ones in deciding monetary policy.

So far the launch of the eco represents the shedding of a colonial vestige. But as it is pegged to the euro, it is not much more than a rebrand of the CFA franc, however, except with added currency risk, as France's financial support is downgraded to an informal level. It is unlikely that the eco will extend beyond the frontiers of UEOMA. If it were more widely adopted, divisions between advocates of exchange-rate flexibility versus those that want to maintain a peg to the euro would be a constant antagonism, and one that would muddle policy more than unify it.

