The findings of this brief reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors or the countries they represent.

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Key Points

- Weekly theme: Africa’s Challenge of Food Insecurity
- Global equity indices rose on the back of positive economic data.
- Commodities advanced on better outlook for global economic growth.

Africa’s Challenge of Food Insecurity

Africa has experienced many severe food crises that caused death and displacement of millions of Africans, including as recently as the last ten years. Recent humanitarian disasters in the Horn of Africa in 2011 and in the Sahel region in 2012 highlighted the vulnerability of African populations in terms of food security. Despite global food surpluses and Africa's endowment of abundant agricultural resources, no significant improvements have been made in tackling hunger and malnutrition on the continent. With 25% of its population undernourished, Sub-Saharan Africa remains the world's most food-insecure region. As indicated in table 1, about 40% of Sub-Saharan children under the age of five were suffering chronic hunger and malnutrition in 2012, higher than other regions in the world. Food security is at the top of the Millennium Development Goals’ agenda, so the current situation is a great human development challenge for the continent, and especially for Sub-Saharan Africa.

Causes of food insecurity in Africa

Africa has ample fertile land, abundant water resources and ideal climate to grow crops. However, a number of factors mean the continent is not food secure. These factors include drought cycles, a demographic boom, the continent’s agricultural program failure and ineffective government policies and actions.

Drought and agricultural policies: The Horn of Africa food crisis in 2011 was triggered by severe drought in the region. Most food crises in Africa were preceded by drought and other extreme weather conditions stemming mainly from global climate change. Drought and floods generally result in poor harvests leading to food scarcity which in turn affects the most vulnerable populations. The impact of weather conditions on food availability and quality can be exacerbated by the adoption of poor agricultural policies. Agricultural problems such as erosion, pests and soil infertility may contribute to severe food crises. Also, many African countries rely essentially on rain-fed agriculture making them more vulnerable to random weather patterns and adding to their food insecurity. The Horn of Africa, for instance, has the lowest crop yields in the world - due mainly to inadequate water control.

Demographic boom and increasing poverty: The African continent is currently experiencing a demographic boom as reflected by high rates of population growth. The African population will continue growing and it is projected to double to two billion by 2045 from the current one billion. Population growth translates into the need for more food. Unfortunately, Africa’s recent demographic boom has been accompanied by persistent poverty which is a key factor explaining hunger and food crises in some African regions. Despite evidence that poverty was declining in Africa between 2005 and 2010, this trend seems to be slow and with disparities between African sub-regions. For the poorest, food may be available physically but not affordable. Kenya, for instance, experienced a food crisis which affected the poorest in rural areas in 2005 despite a 15% increase in harvest yield.

1. AfDB, OECD, UNDP and UNECA (2012): African Economic Outlook
Ineffective government policies and actions: The failure to enforce effective short-term actions and to adopt long-term policies to combat hunger and malnutrition, has contributed to food security challenges in Africa. This is coupled with inadequate emergency plans for vulnerable regions and the corruption in distributing humanitarian aid. In addition, poor or absence of governmental control may lead to market frictions and localized food insecurity. Poor infrastructure which may limit market integration and competitiveness can cause food surpluses in some regions and deficits in others.

Actions needed to tackle food insecurity in Africa

African governments have the responsibility to combat food insecurity in Africa. Fostering the role of agriculture in their countries and providing needed infrastructure and information are primary means by which African authorities can limit the impact of food insecurity on people. Adopting short-term and reactive approaches rather than a proactive approach in fighting hunger and malnutrition as well as relying exclusively on international humanitarian aid may not address the food problem effectively over the long term. African governments should act to encourage agriculture productivity while mitigating the potential impact on the environment. In addition, stimulating rural economic development would induce the youth population’s agricultural entrepreneurship and consequently would lift agricultural productivity to feed Africa’s growing population. As food crises generally escalate with armed conflicts, African governments should avoid conflicts by promoting an environment of political and social stability. This could be achieved through the adoption of long-term economic, social and political development strategies.

Coordinating global humanitarian action: Until the adoption of a long-term regional approach to address food insecurity, African countries will need international humanitarian intervention over the short term. Yet, many humanitarian actions have taken place to limit the effect of food disasters on the populations in the Horn of Africa and the Sahel region. Through global and regional organization and institutions such as the Food and Agricultural Organization, the International Fund for Agricultural Development, the World Bank and the African Development Bank, African countries hit by food crises have benefitted from large financial and technical assistance to reduce the impact of hunger and malnutrition on the populations.

Fostering women’s and rural education: Educating women and rural populations on farming, healthcare and household spending, may have substantial benefits for agriculture and hence for food security. Investing in women’s agriculture and education will improve prospects for them especially in rural areas which in turn would enhance food production and ensure food security for households. The education of women, who perform half of agricultural labor in Africa, is positively related with lower rates of children malnutrition as a consequence of increasing agricultural productivity and poverty reduction. Other measures that can foster the role of women in eradicating food insecurity include reducing traditional and familial burden, improving access to credit and financial services, and helping them gain their own land and farms.

Stock Markets

Global Markets

Global equity stocks rose during the week with U.S. major indices advancing to their highest level in five years amid positive economic reports and talks over U.S. debt ceiling. In the U.S., retail sales unexpectedly grew by 0.5% in December 2012 against market expectations of a 0.2% increase, and housing starts increased more than expected by 954,000 in December against 887,000 projected by economists. In addition, U.S. jobless claims for the week ending on January 12 fell to 335,000 compared with 371,000 recorded the previous week and versus a median expectation of 368,000. These economic developments indicated that the U.S. economy is steadily recovering despite worries over budget talks between Republicans and Democrats in the past month. U.S. stock markets also benefitted from plans by House Republicans to vote a temporary increase in the debt ceiling in the next week. In China, stocks advanced as data released by the National Bureau of Statistics indicated that the country’s year-on-year GDP grew by 7.9% in the fourth quarter of 2012 while economists were expecting a growth rate of 7.8%. Consequently, the DJIA advanced by 1.2%, Shanghai Composite gained by 3.3% and in Europe the FTSE and CAC40 rose by 0.5% and 1%, respectively.

African Markets

The South African All Share index fell by 0.3% amid concerns that the mining sector may be hit by a new wave of labor protests as workers on three of Anglo American Platinum’s South African mines went on illegal strike after the world’s top producer of platinum announced plans to cut 14,000 jobs and to mothball projects. In Nigeria, the All Share index climbed by 5.9% to hit a new record high amid expectations that the government spending will increase in 2013 and as Nigeria Stock Exchange released its outlook for 2013 in which it announced the introduction of new products, the strengthening of the regulatory environment and the delivery of a new trading platform. In Egypt, the EGX30 fell by 1.6% on the back of losses recorded by some specific stocks including Egyptian Iron and Steel and South Valley Cement which dropped by 10.8% and 10.4%, respectively. In Tunisia, the Tunindex rose by 1.6% as the government met with officials from the European Union to develop a common policy for economic cooperation.
Commodity Markets

**Crude (Brent):** The price of Brent crude increased by 1.8% to close the week at USD113.9 per barrel. Brent crude gained as U.S. House Representatives declared they will consider raising the debt ceiling enough to allow the country to pay its bills for the next three months. The oil price also reacted to the statement by the International Energy Agency in which it considered that upward pressures on prices will continue mainly due to stronger than anticipated Chinese demand and on lower supplies from the Organization of the Petroleum Exporting Countries.

**Gold & Silver:** During the week, gold and silver prices rose by 1.1% and 2.7%, respectively. Precious metals mainly rose because of the weakening of the U.S. dollar and it seems that U.S. Federal Reserve Chairman’s speech didn’t influence investors. Other drivers of gold and silver markets include the strong economic growth of China in the fourth quarter of the previous year and the better-than-expected U.S. economic data such as housing starts, retail sales growth and weekly jobless claims.

**Cotton:** Cotton prices ended the week 3.7% higher to settle at USD75.1/lb. As for most commodities, cotton benefitted from weakening U.S. dollar and from Chinese and U.S. growth prospects. The economic data released during the week indicating an increase of China’s economic growth in the fourth quarter and better-than-expected U.S. economic recovery, was a signal for the market that demand for the commodity will rise driven by higher growth of the China and the U.S., the world’s top textile markets.

**Coffee:** Prices of Arabica and Robusta coffees advanced by 0.7% and 2.1%, respectively during the week. Arabica coffee benefitted from speculation that output in Central America may decline due to leaf rust disease. In addition, Arabica prices were lifted by the lack of selling from Brazilian producers. For Arabica, the hike in prices was triggered by speculation that farmers in Vietnam, the world’s largest producer of the variety, will continue to hold back beans.

**Cocoa:** Cocoa prices rose by 1.1% on signs that demand will exceed supply in the season 2012/2013 after two years of oversupply. According to a report by the U.S. investment bank Goldman Sachs, global consumption of cocoa will exceed production by 100,000 tons in the season that started in October 2012.
Currency Markets

The euro strengthened significantly by 1.6% against the U.S. dollar mainly due to a successful bond auction by Spain in which it sold 4.5 billion euros with solid demand and lower yields. In addition, the euro area single currency was supported by the European Central Bank’s comments in which it stated that several conjunctural indicators of the region have broadly stabilized and that financial markets confidence has improved significantly.

The South African rand dropped against all 16 of its most-traded counterparts and weakened by 1.9% against the U.S. dollar amid growing concerns that labor strikes and protests in the mining and agricultural sectors will curb the country’s exports and slow economic growth. In Nigeria, the naira weakened by 0.4% on higher demand for the U.S. dollar after the Nigerian central bank cut the size of its dollar sales during the week.

Sovereign Debt Issues in Africa

The Nigerian 10-year yield spreads declined by 1.6% on the back of market speculations that the federal government may increase its budget for 2013 which may have an impact on the liquidity of the market. In addition, the announcement by the Nigerian Debt Management Office that it plans to raise USD700 million in bonds with maturities ranging from five to ten years on 23 January lifted the demand for the country’s sovereign bonds. In Tunisia, the yield spreads fell by 2.1% after the International Monetary Fund announced it has started negotiations with Tunisia on a loan program totaling USD2.5 billion.

Updates on the Sahel Crisis

According to the humanitarian organization Action against Hunger, the growing armed conflict in the northern region of Mali caused the displacement of 380,000 people and is threatening humanitarian efforts across the country. The conflict would mainly raise the level of food insecurity among the poorest as they may exhaust their food reserves. As the conflict is disrupting transportation routes, other regions of the country including in the south and the west have been affected and may face shortages of food supplies.

Developments Partnerships

Niger: The Board of Directors of the African Development Bank approved a line of credit of €13 million to Niger aimed at fostering the role of small and medium enterprises and industries (SME/SMI) in the country. The line of credit will permit to the Société Nigérienne des Banques to provide SME and SMI operating in various economic sectors including agro-food, construction, transport and education with medium- and long-term credit. This will stimulate sustainable growth and job creation by Niger private sector.
Countries in Focus

**Ethiopia:** According to the Director-General of the World Trade Organization (WTO), Ethiopia may be eligible to join the international body by 2014. Since the beginning of the application process in 2003, the opening-up of state-owned sectors such as telecommunications and finance sectors as well as human rights policies and practices have come under scrutiny of WTO. The declaration may indicate that Ethiopia has achieved significant progress in terms of all the transformations required by the organization.

**Nigeria:** During an official visit to the country, the World Bank Vice President for Africa declared that an annual economic growth rate of 8% is not sufficient to reverse the level of poverty in Nigeria. He added that Nigeria will need to invest in long-term projects for human capacity development. The country’s productivity of labor may be hampered if significant improvements in education, health and other basics of life are not achieved. Nigeria will also need important investments in infrastructure especially in the power sector to reduce costs of production and business.

Updates on African Economic Indicators

**Tunisia:** According to forecasts by the World Bank, year-on-year GDP growth in Tunisia is projected to gradually increase to 3.2%, 4.5% and 4.8% in 2013, 2014 and 2015, respectively. For 2012, despite political uncertainty, Tunisia’s GDP growth rate is estimated at 2.4% mainly due to a recovery in tourism, the World Bank said. Over the medium term, economic activity in North African countries including Tunisia will be affected by local political fragility and social unrest as well as the economic tensions in the euro area region.

**South Africa:** The year-on-year seasonally adjusted Purchasing Managers’ Index (PMI) fell to 47.4 index points in December from 49.5 the month before. For the fourth consecutive month, the South African PMI remains below the threshold of 50 indicating a contraction of the activity. The employment sub-index which dropped by 7.4 points to 44.7 was the main trigger of the overall fall in the index. Weak employment dynamics due to labor strikes in the past months continue to weigh on manufacturing activity in the country. Other contributors to the index fall include new sales orders which declined from 47.7 in November to 44.9 in December, and inventories which fell from 48.8 to 47.3 over the same period. Positive contribution came from the sub-index on expected business conditions which increased from 52.4 to 55.1 during the month.

**Uganda:** Ugandan economy is set to grow by 6% to 7% over the medium term, the International Monetary Fund declared. GDP growth rate of Uganda is projected at 5% in the fiscal year 2012/2013. According to the IMF, the tight monetary policy adopted by Uganda’s central bank since 2011 to combat inflation has slowed economic activity in the past two years. However, as inflation has been brought under control, economic expansion is expected to reach its potential level over the medium-term.
Global Economic Indicators

Updates of the Week: US Retail Sales (Dec), US Industrial Production (Dec), China Industrial Production (Dec), South Africa PMI (Dec)

Next Week’s Updates: China PMI Flash (Jan)

German Industrial Production Growth (MoM)

German Purchasing Manager Index

Chinese Industrial Production Growth (YoY)

Chinese Purchasing Manager Index

US Industrial Production Growth (MoM)

US Purchasing Manager Index

US Retail Sales Growth (MoM)

South Africa Purchasing Manager Index

Source: Econoday, Kagiso. 2013
Appendix Table 1: Stock Market Movements – Week ending 18 January 2013

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Index Name</th>
<th>Index Code</th>
<th>Market Capitalization (USD, million) (1/16/2013)</th>
<th>Weekly % change (01-18-2013)</th>
<th>Year-to-date % Change Dec 31 2011 - January 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>BRVM Composite index</td>
<td>BRVM CI</td>
<td>8,393</td>
<td>▲ 1.27</td>
<td>▲ 0.81</td>
</tr>
<tr>
<td>Egypt*</td>
<td>CASE 30 index</td>
<td>CASE30</td>
<td>14,001.15</td>
<td>▼ -1.62</td>
<td>▲ 0.36</td>
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<tr>
<td>Ghana</td>
<td>Ghana All Share</td>
<td>GSE</td>
<td>29,794</td>
<td>▲ 1.23</td>
<td>▲ 1.47</td>
</tr>
<tr>
<td>Kenya</td>
<td>Nairobi SE Index - NSE 20</td>
<td>NSE 20</td>
<td>15,926</td>
<td>▲ 3.45</td>
<td>▲ 3.79</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Mauritius All Shares</td>
<td>SEUDEX</td>
<td>5,702.54</td>
<td>▲ 1.88</td>
<td>▲ 1.46</td>
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<tr>
<td>Morocco</td>
<td>Casablanca All Share Index</td>
<td>MASI</td>
<td>11,629.54</td>
<td>▼ -3.25</td>
<td>▼ -0.48</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Nigeria All Share Index</td>
<td>NGSE</td>
<td>67,345.02</td>
<td>▲ 5.81</td>
<td>▲ 2.33</td>
</tr>
<tr>
<td>South Africa</td>
<td>All Share Index</td>
<td>JALSH</td>
<td>867,074.70</td>
<td>▼ -0.28</td>
<td>▲ 0.02</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Tunis se Thne Index STK</td>
<td>TUNINDEX</td>
<td>2,722.15</td>
<td>▼ 1.56</td>
<td>▼ 0.38</td>
</tr>
<tr>
<td>Uganda*</td>
<td>Uganda SE All Share Index</td>
<td>USE</td>
<td>6,516.0</td>
<td>▲ 2.44</td>
<td>▼ 5.74</td>
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<tr>
<td>Others</td>
<td>Dow Jones Industrial</td>
<td>DJ Index</td>
<td>4,095,728.5</td>
<td>▲ 1.20</td>
<td>▼ 0.40</td>
</tr>
<tr>
<td>USA</td>
<td>CAC 40 Index</td>
<td>CAC40</td>
<td>954,779</td>
<td>▲ 0.86</td>
<td>▼ 0.64</td>
</tr>
<tr>
<td>France</td>
<td>Nikkei 225 Index</td>
<td>N225</td>
<td>2,371,673</td>
<td>▲ 1.03</td>
<td>▼ 1.06</td>
</tr>
</tbody>
</table>

* in the interbank currency market.

Appendix Table 2: Exchange Rate Movements – Week ending 18 January 2013

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Currency Name</th>
<th>Value at end of current Week (1/18/2013)</th>
<th>Weekly % change (01-18-2013)</th>
<th>Year-to-date % Change Dec 13-1 January 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Algerian Dinar</td>
<td>78.60</td>
<td>▲ 0.58</td>
<td>▼ -0.12</td>
</tr>
<tr>
<td>Angola</td>
<td>New Kwanza</td>
<td>96.06</td>
<td>▲ 0.00</td>
<td>▼ 0.00</td>
</tr>
<tr>
<td>Egypt</td>
<td>Egyptian Pound</td>
<td>6.61</td>
<td>▼ -0.92</td>
<td>▼ -1.91</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Birr</td>
<td>18.52</td>
<td>▼ -0.21</td>
<td>▼ 0.23</td>
</tr>
<tr>
<td>Gambia, The</td>
<td>Gambian Dalasi</td>
<td>33.22</td>
<td>▼ -0.04</td>
<td>▼ 4.75</td>
</tr>
<tr>
<td>Ghana</td>
<td>New Cedi</td>
<td>1.93</td>
<td>▼ -1.13</td>
<td>▼ 1.21</td>
</tr>
<tr>
<td>Guinea</td>
<td>Guinea Franc</td>
<td>7,317.32</td>
<td>▼ -0.21</td>
<td>▼ -2.83</td>
</tr>
<tr>
<td>Kenya</td>
<td>Kenyan Shilling</td>
<td>88.25</td>
<td>▼ -0.09</td>
<td>▼ -0.71</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Mauritian Rupee</td>
<td>31.69</td>
<td>▼ 0.37</td>
<td>▼ 0.14</td>
</tr>
<tr>
<td>Morocco</td>
<td>Dirham</td>
<td>8.41</td>
<td>▲ 1.28</td>
<td>▼ 0.05</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Naira</td>
<td>159.17</td>
<td>▼ -0.44</td>
<td>▼ 0.30</td>
</tr>
<tr>
<td>Mozambique</td>
<td>New Metical</td>
<td>29.58</td>
<td>▲ 0.41</td>
<td>▼ 0.00</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Rwandan Franc</td>
<td>638.47</td>
<td>▼ -1.83</td>
<td>▼ 1.06</td>
</tr>
<tr>
<td>South Africa</td>
<td>Rand</td>
<td>8.80</td>
<td>▼ -1.99</td>
<td>▼ 0.98</td>
</tr>
<tr>
<td>Sudan</td>
<td>Sudanese Pound</td>
<td>4.45</td>
<td>▼ -0.02</td>
<td>▼ 0.12</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Tanzanian Shilling</td>
<td>1,624.45</td>
<td>▼ -0.25</td>
<td>▼ -0.03</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Tunisian Dinar</td>
<td>1.56</td>
<td>▲ 0.59</td>
<td>▼ 0.45</td>
</tr>
<tr>
<td>Uganda</td>
<td>Uganda Shilling</td>
<td>2,701.98</td>
<td>▲ 1.45</td>
<td>▼ 0.11</td>
</tr>
<tr>
<td>Zambia</td>
<td>Zambian Kwacha</td>
<td>5,329.90</td>
<td>▼ 0.00</td>
<td>▼ 0.13</td>
</tr>
<tr>
<td>CFA zone Countries*</td>
<td>CFA Franc</td>
<td>402.49</td>
<td>▲ 1.85</td>
<td>▼ 0.59</td>
</tr>
<tr>
<td>Others</td>
<td>Euro</td>
<td>0.75</td>
<td>▲ 1.61</td>
<td>▼ 0.13</td>
</tr>
<tr>
<td>Japan</td>
<td>Yen</td>
<td>89.00</td>
<td>▼ 0.97</td>
<td>▼ 1.14</td>
</tr>
</tbody>
</table>

*Value at end of 17/01/2013.
* in the interbank currency market.