



# Economic Report on Africa 2010

**Promoting high-level sustainable growth  
to reduce unemployment in Africa**



Economic Commission for Africa



African Union



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# Acronyms

ACP	African, Caribbean and Pacific
ACPC	African Climate Policy Centre/ECA
AEO	African Economic Outlook
AfDB	African Development Bank
AfT	Aid for trade
AGOA	Africa Growth Opportunity Act
AGRA	Alliance for a Green Revolution in Africa
AIDS	Acquired Immune Deficiency Syndrome
AMCEN	African Ministerial Conference on the Environment
AMU	Arab Maghreb Union
APN	Asian-Pacific Network
APF	African Partnership Forum
APRM	African Peer Review Mechanism
ART	Anti-Retroviral Treatment
AR4	Fourth Assessment Report of IPCC
ASSA	Allied Social Science Associations
AUC	African Union Commission
AWPS	African Women's Progress Scorecard
BDC	Botswana Development Corporation
CAHOSCC	Conference of African Heads of State and Government on Climate Change
CEDA	Citizen Entrepreneurial Development Agency
CDM	Clean Development Mechanism
CDSF	ClimDev-Africa Special Fund
CDPoA	Copenhagen Declaration and Plan of Action
CEMAC	Economic and Monetary Community of Central Africa
CFA	African Financial Community
COMESA	Common Market for East and Southern Africa
COP-15	15 <sup>th</sup> Conference of Parties
CO2	Carbon Dioxide
DAC	Development Assistance Committee
DDA	Doha Development Agenda
EAC	East African Community
EAP	East Asia and Pacific
ECA	Economic Commission for Africa
ECB	European Central Bank
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ECOM	Congolese Household Consumption Survey

ESA	East and Southern Africa
EIA	Energy Information Administration
EIU	Economic Intelligent Unit
EPA	Economic Partnership Agreement
EPADP	Economic Partnership Agreement Development Programme
EPWP	Expanded Public Works Programme
EPZ	Export Processing Zone
EPR	Employment-to-Population Ratio
ERA	The Economic Report on Africa
ERR	External Rates of Return
EURO	The official currency of European Union members
EU	European Union
FAO	Food and Agriculture Organization
FED	United States Federal Reserve Bank
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GA	Growth Accounting
GDP	Gross Domestic Product
GD	Growth Diagnostics
GLSS	Ghana Living Standards Survey
GEF	Global Environment Facility
GNI	Gross National Income
GNP	Gross National Product
GR	Gross Regressions
GSP	Generalized System of Preferences
GRPS	Growth and Poverty Reduction Strategy
G-20	Group of Twenty Finance Ministers and Central Bank Governors
HATAB	Hospitality and Tourism Association of Botswana
HIPC	Heavily Indebted Poor Countries Initiative
HIV	Human Immunodeficiency Virus
ICPD	International Conference on Population and Development
IDA	International Development Association
ICT	Information and Communication Technology
IFPRI	International Food Policy and Research Institute
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPPC	Intergovernmental Panel on Climate Change
IISD	International Institute for Sustainable Development
ISS	Import Substitution Strategy

LABORSTA	ILO Database on Labour Statistics
LDC	Least Developed Country
LEA	Local Enterprise Development Authority
LEAP	Livelihood Empowerment Against Poverty
LAC	Latin America and the Caribbean
MA	Moving Average
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFA	Multi-fibre Agreement
MFN	Most Favoured Nation
MIP	Minimum Integration Programme
NAMA	Non-Agricultural Market Access
NA	North Africa
NAPAS	National Adaptation Programme of Action
NCAR	National Centre for Atmospheric Research
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NYMEX	New York Mercantile Exchange
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OHADA	Organization for the Harmonization of Business Law in Africa
OPEC	Organization of Petroleum-Exporting Countries
OVE	Orphans and Vulnerable Children
PACJA	Pan African Climate Justice Alliance
PAMSCAD	Programme of Action to Mitigate the Social Cost of Adjustment
PRSP	Poverty Reduction Strategy Paper
PPP	Purchasing Power Parity
RATES	Regional Agricultural Trade Expansion Support Programme
R & D	Research and Development
REC	Regional Economic Community
REER	Real Effective Exchange Rate
SACU	South African Customs Union
SADC	Southern African Development Community
SDR	Special Drawings Rights
SDT	Special and Differential Treatment
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
SOWE	State of the World Economy
SSA	Sub-Saharan Africa
SSM	Special Safeguard Mechanism
SSG	Special Safeguard
SVEs	Small and Vulnerable Economies

TBT	Technical Barrier to Trade
TFP	Total Factor Productivity
TNC	Trade Negotiation Committee
TRIPs	Trade Related Intellectual Property Rights
TVST	Technical and Vocational Skills Training
TVET	Technical and Vocational Education Training
UN	United Nations
UEMOA	West African Economic and Monetary Union
UMA	Uganda Manufacturers Association
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCO	United Nations Economic and Scientific Cultural Organization
UN-HABITAT	United Nations Human Settlements Programme
UNICEF	United Nations International Children's Fund
UNDP	United Nations Development Programme
UN-DESA	United Nations – Department of Economic and Social Development
UNIDO	United Nations Industrial Development Organization
UNFPA	United Nations Population Fund
UNFCCC	United Nations Framework Convention on Climate Change
UNSD	United Nations Statistics Division
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WB	World Bank
WDI	World Development Indicators
WHO	World Health Organization
WTO	World Trade Organization
WTI	West Texas Intermediate

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# Foreword

The lingering effects of the recent global financial and economic crisis took a heavy toll on economic activity in Africa, retarding progress towards achieving the continent's development goals. With economic growth declining, the numbers of the unemployed as well as poverty rates have risen, particularly among vulnerable groups. In many countries, the crisis has jeopardized progress towards meeting the Millennium Development Goals (MDGs) and the objectives of AU and its NEPAD programme.

However, the crisis provides African countries with an opportunity to reorient their long-term growth and development policy frameworks. This will ensure that the expected economic recovery is characterized by high and sustained growth rates as well as high employment-intensity to alleviate poverty.

It is against this backdrop that we are pleased to present the *Economic Report on Africa (ERA) 2010*, a joint undertaking between the United Nations Economic Commission for Africa (UNECA) and the African Union Commission (AUC). ERA 2010 broadly assesses recent global economic developments, and economic and social conditions and emerging issues in Africa, including trade negotiations, financing development and climate change. The report then explores a theme of foremost importance to the long-term economic and social development of the continent: promoting high-level sustainable growth to reduce unemployment in Africa.

The impetus for this theme comes from the jobless growth experienced by many African countries prior to eruption of the recent economic and financial crisis. ERA 2010 shows that despite recent impressive economic performance growth had been below the level necessary for Africa to achieve the MDGs even before the crisis. Overall employment growth has been disappointing in most African countries. Such lacklustre employment growth partly explains the limited progress in poverty reduction and other social conditions.

Economic diversification and equitable distribution of the benefits of growth are essential for reducing unemployment on a sustainable basis as well as progress towards poverty reduction and other broader social development goals. The two overall challenges that African countries face are first, to sustain a high level of long-term economic growth in the aftermath of the recent economic downturn and second, to

translate this economic growth into the creation of meaningful decent employment with special attention to vulnerable groups and rural areas.

Recalling the commitments made in September 2004 in Ouagadougou, Burkina Faso, by the Extraordinary African Union Summit on employment and poverty reduction, ERA 2010 makes a compelling case for targeting employment in the long-term development plans that African countries are formulating, implementing and monitoring. Such plans are essential if countries are to enter paths of high, sustainable and employment-friendly growth. They should be supported by sectoral, particularly industrial and labour market, strategies and policies that aim at bridging the infrastructure gap, investing in people and improving governance.

Equally important is the creation of an enabling environment for high labour productivity and for economic transformation with special attention to the engines and drivers of a high level of job-creating growth. Care must be taken to ensure that these long-term plans make room for short-term countercyclical measures in order to mitigate the adverse effects of exogenous shocks on the most vulnerable segments of African society.

We hope this edition of ERA will stimulate further dialogue among key stakeholders on how best to mainstream the employment creation agenda into national development planning and make future growth on the continent a more effective means of reducing poverty through decent jobs.



Abdoulie Janneh  
United Nations Under-Secretary-General and  
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Jean Ping  
Chairperson  
African Union Commission

# Overview

Africa achieved relatively high growth rates in the first decade of the twenty-first century, culminating in a continent-wide average growth rate of 6.1 per cent in 2007. Although rates varied across the continent, this relatively fast growth was generally shared, with several countries experiencing growth rates that exceeded their population growth rates, thus leading to increases in per capita income. This rapid growth was generally due to increased investment financed by high commodity prices, resource extraction, foreign direct investment (FDI) and inflows of other foreign resources, as well as macroeconomic stability and better economic management. This relatively rapid growth was however, not accompanied by growth in employment, as the rates of unemployment and underemployment increased in most African countries. Unemployment rates remained in double digits in a large number of African countries. The 2008 global financial and economic crises exacerbated the unemployment problem through their impacts on growth, export earnings, government revenues and foreign capital inflows into Africa.

Like the Ouagadougou Declaration and Plan of Action on Employment and Poverty Alleviation in Africa (2004) and the objectives of the New Partnership for Africa's Development, the Economic Report on Africa 2010 (ERA 2010) focuses on how African countries can use the lessons provided by the recent global economic crisis to pursue policies which will help them not only to recover from the crisis but also to lay a foundation for sustainable high growth that generates high-paying employment for Africans as a way of reducing poverty. Of particular concern is how to rapidly generate stable and high-income employment to absorb the increasing number of unemployed among vulnerable groups - youth, women and the physically challenged. ERA 2010 argues that the current global economic crisis offers African countries an opportunity to develop policies to counter the problems created by the crisis and at the same time lay the foundation for sustainable, employment-intensive, high-growth-rate economies that are structurally diversified to replace the current economic structures which rely almost exclusively on natural resource extraction to generate economic growth.

ERA 2005 argued for developing agro-business as a mechanism for reducing unemployment and poverty in Africa, especially among rural people and women (UNECA, 2005). Five years after the publication of ERA 2005, unemployment

*Africa has been unable to create enough jobs to significantly reduce unemployment despite impressive growth before the crisis*

**Africa's development strategies must focus on employment generation**

remains high and rising in spite of historically high growth rates in gross domestic product (GDP). ERA 2010 therefore reinforces the message of ERA 2005 that African countries should pay special attention in their development policies to reducing unemployment. Although both ERA 2005 and ERA 2010 focus on reducing unemployment, there are differences in emphasis and conditions. First, the environments within which the two reports were written are different: ERA 2005 was written in a period of robust economic growth and a lot of optimism in Africa, while ERA 2010 is being written in a period of serious global economic crisis with severe implications for Africa's economic future. Second, while ERA 2005 emphasized agro-industry as a mechanism for achieving high employment, ERA 2010 stresses structural transformation through appropriate macroeconomic policies as the mechanism for achieving high employment growth. Finally, ERA 2010 focuses on both short-term countercyclical policies and long-term strategies.

This report is organized into two parts. The first part, consisting of chapters 1 to 3, discusses current trends in the global economy and African economies. The second part, covering chapters 4 to 6, is the thematic part and deals with how to use the challenges created by the recent global economic crisis as an opportunity to develop and implement policies that lead to the structural transformation of African economies and result in sustained high growth with a high level of employment creation. Chapter 1 of the report examines global economic developments and their implications for Africa. This is followed by an analysis in chapter 2 of economic and social conditions in Africa in 2009 and the prospects for 2010, while chapter 3 discusses selected current and emerging development issues for Africa in 2009.

Part II, the thematic part of the report, is devoted to the issue of reducing high unemployment through the promotion of high-level sustainable growth. Special attention is paid to reducing unemployment among vulnerable groups. Chapter 4 discusses the major drivers of economic growth in Africa since 1990, with a view to understanding the sources of the observed jobless growth in the last decade, as well as discussing the impact of the recent global crisis on these drivers. This is followed in chapter 5 by a discussion of what countercyclical and long-term policies African countries can pursue to recover from the effects of the crisis and lay a foundation for long-term high employment-elastic economic growth that is accompanied by structural transformation. Chapter 6 presents and discusses four country case studies of recent economic growth and employment generation and draws lessons for policies to generate high-employment growth for African countries. The chapter also concludes the report.

## Developments in the world economy and their implications for Africa

The global financial crisis continued to have a negative effect on the world economy in 2009, although there are signs that the world economy has began to stabilize. The world economy contracted by 2.2 per cent, trade volume decreased by 12.4 per cent and there was a rapid decline in FDI flows to developing countries. The contraction was much more concentrated in the developed world, which saw a 3.5 per cent decline in GDP while the developing world recorded 1.9 per cent growth. Associated with the economic downturn has been a sharp increase in unemployment, with unemployment in most member countries of the Organisation for Economic Cooperation and Development exceeding 10 per cent. While economic activity is expected to expand in 2010, the recovery is likely to be anaemic (IMF, 2009a, UN-DESA, 2010).

GDP growth in Africa declined from 4.9 per cent in 2008 to 1.6 per cent in 2009 and is expected to rise to 4.3 per cent in 2010. The volume of export growth is expected to recover from -4.9 per cent in 2009 to 4.2 per cent in 2010; the current account and fiscal balance and savings and investment rates all declined. Unemployment rates remained in double digits in 2009 as in previous years, and are expected to remain high in 2010.

The current global recession will have significant effects on current-account and fiscal balances in 2010. Regions with current-account surpluses - Japan, China, India and the countries of the Gulf Cooperation Council - experienced a decline in these surpluses in 2009 and possibly in 2010. The fiscal balance in industrial countries as a whole and in all major countries and regions sharply deteriorated in 2009. This decline was mainly driven by lower revenues, owing to the slowdown in income growth and higher expenditure as countries pursued expansionary countercyclical fiscal policies. Developing countries as a group experienced a negative fiscal balance of 3 to 5 per cent of GDP. While the fiscal positions of industrialized countries are expected to improve in 2010, they are still expected to have negative fiscal balances, albeit reduced ones.

Commodity prices fell at the beginning of 2009, but have since rebounded and are expected to stabilize in 2010 and rise moderately in 2011. The rebound in 2009 was mainly due to increased petroleum prices, resulting in part from increased demand from China following its stimulus package as well as the upward revision of expected world demand. However, as a result of the depreciation of the United States dollar, 2009 commodity prices were below their 2008 levels in real terms. Besides the prices of crude oil, the prices of other commodities (e.g. food and tropical beverages, agricultural produce and mineral ores) fell significantly in 2009.

*There are signs that the world economy has begun to stabilize*

**Global commodity  
prices and inflation  
declined significantly  
in 2009**

As a result of the global economic crisis, inflation rates declined in all parts of the world in 2009. Global inflation fell to 1.3 per cent in 2009, and is expected to rise to 2.2 per cent in 2010. Inflation rates were lowest in developed countries in 2009, with an average rate of 0.1 per cent, while emerging and developing countries had moderate inflation of 4.3 per cent. Inflation rates for 2010 are expected to be 1.3 and 4.7 per cent for developed and developing countries respectively.

Global trade, FDI, official development assistance (ODA) and remittances were negatively affected by the recession in 2009, and may continue to be negatively impacted by the economic crisis in 2010. World trade contracted in 2009, and this was reflected in negative growth rates of exports for all regions of the world. Growth in world trade is expected to recover in 2010 as the global economy gradually recovers from the recession. Accompanying the decline in world trade was a reduction in foreign exchange reserves in many regions of the world in 2009, with China as the major exception.

In 2009, global FDI flows contracted by 43 per cent. Most of the decline was accounted for by a fall in FDI flows to developed countries, although FDI to East and South-east Asia witnessed significant declines. Although the flow of FDI is expected to increase in 2010, the rise is not likely to be evenly spread over all parts of the world. ODA flows to Africa peaked at US\$ 24.5 billion in 2007. As a result of the world economic crisis, FDI flows decreased by 11 per cent in 2009 and are expected to decrease further as the developed countries continue to face fiscal stress and are preoccupied with domestic concerns. While Africa attracts a relatively small proportion of the world's FDI, these flows may be more critical to economic performance in Africa than elsewhere.

Remittance flows constitute a significant and growing source of foreign flows to the developing world. In 2009, remittances to the developing world decreased by 5.3 per cent from US\$ 420.1 billion in 2008. For 2010, the rate of decline in remittance flows to developing countries is expected to be slow. The global economic crisis has negatively affected unemployment rates and the working poor around the world. According to the International Labour Organization, global unemployment jumped from 5.9 per cent in 2008 to an estimated 6.9 per cent under the best scenario in 2009, or 7.4 per cent according to the worst scenario. According to worst-case estimates, working poverty rates increased to 28.2 per cent in 2009, while the proportion of those in vulnerable employment increased from 49.8 per cent to 52.8 per cent in 2009.

In Africa, the global recession had severe negative consequences on several aspects of economic performance. Besides the significantly lower growth rate, the volume of trade, export revenue, the investment rate, the savings rate, FDI and international reserves declined, while both the current account and the fiscal balance became

negative in most African countries. In addition, official unemployment increased, together with the proportion of workers who are poor and are in vulnerable employment situations.

## Recent economic and social performance in Africa

### Africa's growth slows down, with significant variations in 2009

As a result of the global economic recession, Africa's economic growth continued to slow in 2009 to 1.6 per cent, down from 4.9 per cent in 2008. In spite of the fall in world commodity prices, primary commodity exports continue to be the major driver of growth in Africa. Although oil and other commodity prices fell generally in the early part of 2009, they rebounded in the second half of 2009 and remained high. Thus, oil-exporting African countries grew at 2.5 per cent compared to an average of 0.5 per cent for non-oil African economies in 2009.

There were considerable regional variations in growth in 2009 across African regions and countries. Growth was highest in East Africa at 3.9 per cent, followed by North Africa at 3.5 per cent, West Africa at 2.4 per cent and Central Africa at 0.9 per cent, while Southern Africa posted a negative growth rate of 1.6 per cent. Of the 53 African countries, only 7 grew at 5 per cent or more in 2009, while 29 grew at less than 3 per cent. This compares to 25 countries growing at 5 per cent or more and 16 countries growing at less than 3 per cent in 2008.

The combination of a decline in energy and food prices around the world, weak domestic demand resulting from the global recession, and favourable food supplies contributed to a decline in inflation in Africa in 2009. Again, there are wide variations, with oil-exporting countries posting the lowest inflation while countries that experienced currency depreciation (e.g. Uganda and Zambia) saw higher rates. With increased spending needs and reduced revenues stemming from the slowdown in economic activity, many African countries experienced fiscal deficits in 2009; however, because of prudent fiscal policies in the past, many African countries had the fiscal space for countercyclical policies. In a departure from past practice, where monetary policy was geared strictly towards inflation targeting, there is evidence that monetary authorities in African countries supported expansionary fiscal policies with prudence in 2009. Real exchange rate movements were mixed: while some countries (especially those with fixed exchange regimes, such as those in Commun-

*The global financial crisis adversely affected growth and employment in Africa*

**“ Many African countries implemented expansionary fiscal and monetary policies in 2009 ”**

auté financière africaine (CFA), and those with higher inflation rates) experienced a real appreciation of their currencies, other countries experienced depreciation.

The average current account balance decreased by 3.5 per cent in Africa in 2009, although there were wide variations across the continent. As a group, oil-exporting countries experienced only 0.7 per cent declines in their external balance, while oil importers as a group experienced a 6.2 per cent fall. In some oil-importing countries, increased demand for mineral exports (e.g. gold in Ghana, Mali and the United Republic of Tanzania) helped to improve the external balance in 2009. The global crisis presents African countries with the prospect of unfavourable external balances in the future as export growth decreases.

### **Unemployment and vulnerable unemployment rates remained very high in 2009**

As indicated above, the global economic crisis exacerbated the already high unemployment rates and vulnerable employment in Africa. North Africa was hardest hit in terms of open unemployment, with unemployment rising above 10 per cent in 2009. In sub-Saharan Africa, the major employment problem was the large increase in informal sector employment and other forms of vulnerable employment.

### **Prospects for 2010: a slow and variable recovery with increased vulnerability**

Economic activity in Africa is expected to recover in 2010, with GDP projected to grow at an average rate of 4.3 per cent. The projected regional growth rates are 4.2 per cent for North Africa, 5.1 per cent for oil-exporting sub-Saharan Africa and 4.9 per cent for oil-importing sub-Saharan Africa. Of course, if commodity prices continue to recover and remain high in 2010, oil-exporting African countries are likely to grow faster than their oil-importing counterparts. Yet the expected economic growth falls short of the 7 per cent pace required for achieving the Millennium Development Goals. The expected GDP growth rate is also not likely to be accompanied by increased job creation, if historical trends are used to predict job creation. This means that unemployment and vulnerable employment as well as working poverty in Africa are likely to increase in 2010.

The expected increase in economic growth will be driven by both domestic and international factors, including increased demand for and prices of African exports, rising private capital inflows, increased ODA inflows and remittances as well as the continued stimulus of fiscal and monetary policies in many African countries. It is also expected that African countries will continue to maintain a stable macroeconomic environment, improved economic management and political stability. These

are the same drivers of growth that have left economic performance in Africa vulnerable to volatility in world commodity markets in the past.

On the positive side, Africa has a large and growing labour force and underutilized capacity that can be employed to increase output. This labour force is increasingly educated, young and innovative. The slack in economic activity means that African governments can pursue policies to put these unemployed resources to work without igniting inflation, if this is done with care. These policies can also lay the foundation for structural transformation and long-term, sustainable high-employment-generating economic growth and poverty reduction. Africa's long-term growth prospects and ability to sustain high rates of employment generation and broader social development depend on success in economic diversification (UNECA and AUC, 2007). Policies as well as institutional reforms formulated and implemented for Africa should therefore pay attention to this goal.

*African labour force is increasingly educated, young and innovative*

## Recent trends in social development in Africa

### Rapid population growth with increased poverty

Africa's population increased by 2.3 per cent between 2008 and 2009, reaching about 1 billion people. Seventy per cent of the population is aged 30 or younger, making Africa one of the youngest continents in the world. This population provides Africa with a large pool of labour upon which it could draw for rapid economic growth. The rapid population increase, together with increased rural-urban migration, creates many problems, including inadequate provision of sanitation and social services, housing and employment (see below).

Although accurate data on poverty in Africa are hard to come by, there is evidence that poverty rates are high and rising. In 2005, the proportion of people living in extreme poverty, using the new US\$ 1.25 per day poverty line, was 51 per cent in sub-Saharan Africa and 3 per cent in North Africa. Although a gender breakdown is not provided, it is generally agreed that women and children are more likely to be poor than men. The current economic crisis is likely to exacerbate the incidence and severity of poverty in Africa, and again women and children are likely to be the most affected by the crisis.

**Africa made  
remarkable progress  
in primary school  
enrolment**

## Human capital formation is mixed, at best

It is generally agreed that an educated and healthy labour force is necessary for rapid economic growth. Africa is making remarkable progress in this direction. Net primary enrolment rates rose from 71 to 74 per cent between 2006 and 2007 in sub-Saharan Africa, and from 91 to 96 per cent in North Africa. At the current rates, Africa could achieve 100 per cent enrolment by 2015. However, the quality of primary education, as well as completion rates, especially among females, leave much to be desired. In addition, gross enrolment ratios in secondary and tertiary education are very low compared with those of other regions of the world, and graduates are less trained in appropriate skills. Although literacy rates have improved, the challenge is for African educational systems to produce graduates with the skill sets that are necessary to develop African economies.

Average life expectancy in Africa was about 55 for men and 57 for women in 2009, although levels vary enormously across the continent. Life expectancy ranges from a high of more than 70 for countries like Mauritius, Morocco and Tunisia to a low of about 46 for Lesotho, Zambia and Zimbabwe; the low numbers are due largely to the HIV/AIDS epidemic. As a result of targeted intervention programmes, HIV prevalence rates have stabilized and those with the virus are living longer. The prevalence of other diseases such as tuberculosis and malaria has, however, been trending upwards in Africa. On the positive side, malaria has virtually been eliminated, and the prevalence rate of tuberculosis decreased from 65 per 100,000 in 1990 to 44 per 100,000 in 2007 in North Africa.

Under-five mortality rates in sub-Saharan Africa dropped from 160 per 1,000 in 2006 to 145 per 1,000 in 2007. However, this rate is still unacceptably high. Under-five mortality rates in North Africa decreased from 83 in 1990 to 35 per 1000 in 2007. In contrast, maternal mortality is extremely high, decreasing from 920 per 10,000 in 1990 to 900 per 10,000 in 2005. About 80 per cent of these deaths are preventable. On the positive side, the proportion of people with access to clean drinking water increased to 60 per cent in 2006. Much of this improvement took place in urban areas, while a majority of African population lives in rural areas. The challenge, then, is to provide access to clean water for those in the rural areas. Improving human capital is essential for improved labour productivity, employment and economic growth in the future.

## Gender equity is improving, but very slowly

Twelve African countries have shown improvements in the number of women in national parliaments as of 2009, with Rwanda achieving gender parity (56.3 per

cent) and Angola, Burundi, Mozambique, South Africa, Uganda and the United Republic of Tanzania achieving 30 per cent representation of women. The number of women ministers in African countries was low in 2009. On the negative side, violence against women still remains high, although it appears to be receiving increasing attention. While primary and secondary school enrolment rates for girls increased in 2009, gender equity has not been achieved.

“ Despite increasing attention, violence against women remains high ”

### **Unemployment and vulnerable employment remains too high and rising**

Unemployment rates were high even in times of rapid economic growth. The current economic crisis has exacerbated the unemployment problem. Official unemployment rates in 2008 were 7.6 per cent in sub-Saharan Africa and 10.1 per cent in North Africa. While the rate of unemployment is relatively low in sub-Saharan Africa, the proportion of workers in vulnerable employment is about 77 per cent of the labour force, and is likely to increase with the economic recession as an increasing number of people are not able to find jobs in the formal sector. Those in vulnerable employment are also likely to fall into the category of the working poor. Reducing poverty in Africa will therefore require African countries to increase efforts to create jobs for those in vulnerable employment situations.

While the unemployment effects of the global financial and economic crisis cut across all groups, in Africa it is the poor that bear the brunt of the crisis owing to the lack of social safety nets. Accordingly, long-term growth and employment strategies should pay special attention to vulnerable groups, including women, young people and the rural poor. Indeed, in the short run African countries should pursue countercyclical policies that create employment for vulnerable groups. Of course, appropriate policy interventions are likely to differ across countries and possibly income levels as well as with the structure of unemployment. In the long term, however, African countries have to pursue high employment elasticity growth strategies.

### **Selected current and emerging development challenges for Africa in 2009**

Of the several development challenges and issues facing Africa in 2009, the continent's continued marginalization in international and global affairs, its ability to mobilize resources (domestic and foreign) to finance development, issues of global climate change and its inability to generate high-paying employment for the growing labour force stand out as major concerns.

## **Developments in international trade in 2009**

*Africa's global trade remains concentrated in a few primary commodities and destinations*

Africa continued to play a marginal role in world trade in 2009, with about a 3.4 per cent share of global merchandise trade and an insignificant share in trade in services. Commodities continue to be the major exports, and export destinations remain concentrated in industrialized countries, although South-east Asia and Brazil are beginning to be important destinations for African exports. The reliance on a narrow range of commodities as well as a narrow range of export markets makes African export earnings extremely vulnerable to volatility in these markets. Intra-African trade continued to be minimal, at less than 10 per cent of total trade in 2009.

There was no major progress in world trade negotiations in 2009, although African countries continued to be interested in market access provision in agriculture and non-agricultural market access under the Doha round of World Trade Organization negotiations. Although no negotiations took place in 2009, it appears the year was devoted to marshalling political will and preparing the ground for negotiations to resume in 2010. The development of a new international governance architecture represented by the G-20 forum and the restructuring of the negotiating process in 2009 were the two major dynamics in political economy that could have consequences for Africa.

No significant changes in the negotiations on economic partnership agreements (EPAs) occurred in 2009. However, African trade ministers endorsed an EPA template jointly prepared by the African Union Commission and the Economic Commission for Africa (ECA). Countries that signed the interim agreements mainly focused on market access in the European Union. In some of the groupings, it was anticipated that comprehensive EPAs would be concluded and signed by the end of 2008. However, several outstanding issues such as the African regional integration processes and other trade-related issues that were of concern to African countries made it difficult to conclude the negotiations. Of particular concern is what a comprehensive EPA would do to existing regional groupings and relationships as well as intra-African trade generally. ERA 2010 therefore urges African countries to continue to negotiate the full regional EPAs with a more coordinated strategy at the continental level, focusing on a comprehensive development dimension, and linking the EPA negotiations to the world trade negotiations.

The second global review of the Aid for Trade (AfT) initiative concluded that progress had been made. By 2007, commitments to Africa had risen by 62 per cent to US\$ 8.3 billion. Economic infrastructure (60 per cent) and productive capacity (36 per cent) accounted for the bulk of these commitments. The review indicated areas of emphasis on future AfT commitments, including honouring of pledges, increased

ownership of AfT projects by Africans and better and more effective implementation of projects.

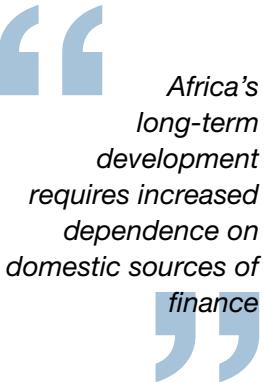
## **Financing development in the context of the global economic crisis**

Africa continues to face challenges in financing development, as the global economic crisis decreased both internal and external resources in 2009. In terms of domestic resource mobilization, the ratio of gross domestic savings to GDP dropped from 25 per cent in 2008 to 19.3 per cent in 2009, while the ratio of tax revenues to GDP decreased by 21 and 10 per cent in sub-Saharan Africa and North Africa respectively. African countries made attempts to increase government revenues through improved tax and customs administration. These efforts should be sustained and expanded. Trade revenues, which have been the main source of financing development in Africa, decreased in 2009. For some selected African countries, both export revenues and imports fell by about 25 per cent. The decline in export revenues can be attributed to the global economic crisis, which decreased demand for commodities, with a consequent collapse in commodity prices.

Private capital inflows to Africa reached US\$ 87 billion in 2008, but estimates by the United Nations Conference on Trade and Development suggest that private capital inflows decreased by 67 per cent in 2009 as a result of a reduction in FDI in the mineral extraction sector due to the collapse of world commodity prices. Available data suggest that remittances to Africa fell by 7 per cent in 2009 (9.2 per cent in North Africa and 3.3 per cent in sub-Saharan Africa) owing to decreased economic activity and increased unemployment in high-income countries. The inflow of ODA has been an important source of development finance, especially in the areas of infrastructure, education and health. In 2008, ODA flows to Africa increased by 12.5 per cent over 2007. Though ODA data for Africa are not yet available, estimates show that the member countries of the Development Assistance Committee of the Organisation for Economic Cooperation and Development will cut ODA to all developing countries by US\$ 22 billion in 2009, suggesting that their aid to Africa will decrease. It was, however, hoped that aid to Africa from non-members of the Committee increased in 2009.

Several African countries continued to benefit from debt forgiveness under the Heavily Indebted Poor Countries initiative in 2009. However, the economic crisis increased the debt of African countries, as the average debt-to-GDP ratio rose from 22.4 per cent in 2008 to 25.4 per cent in 2009. The debt-service-to-export ratio also increased, to 16.2 per cent from 15.9 per cent in 2008. If this increased debt ratio becomes a trend, Africa may be in danger of slipping back to the unsustainable high debt levels it recorded before the initiative. The global financial crisis has reinforced

*Both internal and external sources of development financing declined in 2009 due to the crisis*



*Africa's  
long-term  
development  
requires increased  
dependence on  
domestic sources of  
finance*

Africa's weakness vis-à-vis the world financial architecture, where it is not a party to most decision-making regarding rules governing global financial flows.

The global financial and economic crises also highlight the need for African countries to pursue policies to use domestic resources as the major source of development financing, as the current policy of relying on external financing makes development dependent on uncontrollable forces. African countries should therefore pay serious attention to enhancing domestic resource mobilization through the use of creative and appropriate financial and capital market reforms, especially policies that expand the banking base to those hitherto unbanked.

### **Climate change mitigation is necessary but costly**

There is ample scientific evidence that global climate change is real, and the social, ecological and economic impact on Africa will be negative and substantial. Agricultural output is expected to decrease by 50 per cent in Africa, resulting in severe undernourishment as a result of unchecked climate changes. The health burden and conflicts will increase as populations fight over dwindling resources. The need for Africa to develop adaptation and mitigation strategies cannot be overemphasized. The costs of adaptation and mitigation are, however, extremely high and beyond the means of African countries. It is estimated that the cost of adaptation could be anywhere between 5 and 10 per cent of continental GDP. It is therefore important for the international community to help in financing the cost of climate change adaptation and mitigation in Africa.

While Africa will be the most affected by climate change (even though it contributes the least), it is the least able to finance mitigation and adaptation measures. There are limited resources available to the international community as a whole, and Africa in particular, for adaptation and mitigation. Indeed, less than 15 per cent of resources pledged for mitigation of climate change have so far been disbursed. Although mitigation of and adaptation to climate change is costly, the related measures will not create negative consequences for development as they could create jobs - green jobs - for the growing labour force in Africa. Indeed, the prospect of global climate change underlines the need to radically transform carbon-based economies into green economies. Africa's low level of development in the current carbon-based economy will give it an advantage in the green economy, since the changes will be less costly than in other areas that are already steeped in the carbon economy.

Africa actively participated in the United Nations conference on climate change in Copenhagen in 2009. Although the 2009 Copenhagen accords were not adopted, preparations for the conference allowed Africa to develop a framework and procedures to counter climate change. For example, the Climate for Development

in Africa project jointly organized by the African Development Bank, the African Union Commission and ECA speaks to the seriousness with which Africa is taking the issue of climate change. In addition to this project, a comprehensive African Climate Change Programme is being developed under the auspices of the African Ministerial Conference on the Environment.

*The 2009 Copenhagen's conference allowed African countries to develop a framework and procedures to counter climate change*

## High unemployment hinders poverty reduction

For most people, gainful employment is the only way out of poverty. This is especially the case for youth and other disadvantaged groups. Unfortunately, unemployment and underemployment rates in Africa are high and continue to rise even during rapid economic growth, depriving people of this route out of poverty. Unemployment remained in double digits in North Africa. In sub-Saharan Africa, the official unemployment rate was in single digit; however, over 75 per cent of the labour forces were employed in the low-productivity informal sector in vulnerable employment. While several reasons can be given for the high rates of unemployment, it is clear that African economies were not able to create enough jobs to employ the growing labour force because the sectors that anchor economic growth tend to be capital-intensive enclave sectors.

High and rising unemployment not only makes it difficult to reduce poverty rates, it also reduces the pace of economic growth as important resources are not put to work. In addition, high unemployment discourages investment in human capital and leads to skill loss. A further important reason for Africa to worry about high unemployment rates, especially among young people, concerns social stability. Frustration caused by persistent unemployment and lack of opportunities is likely to prompt young people to gravitate towards a charismatic and opportunist social revolutionary who blames the current structure of society for their problems. This is another reason why African countries should pay serious attention to unemployment problems.

## Promoting high-level sustainable growth to reduce unemployment in Africa

In spite of relatively high GDP growth in Africa in the last decade, unemployment remains high and continues to grow. The problem is widespread; of the four countries studied, economic growth was accompanied by increasing unemployment in three of them, while the fourth showed a drastic rise in informal sector employment. The problem of high and rising unemployment persists, making it difficult for the continent to reduce poverty rapidly. High unemployment not only impedes progress

*High unemployment in Africa stems from both supply and demand sources*

in poverty reduction but also has the potential to decrease human capital formation, increase income inequality and cause major social upheaval in African societies. There is an urgent need to create employment for the growing labour force, especially among youth and other vulnerable groups. The positive news is that African labour is increasingly educated and healthy, and hence likely to be productive.

High and growing unemployment rates in Africa stems from both supply and demand sources. On the supply side, the labour force in Africa is rapidly growing owing to high population growth and increased labour participation, especially among women. On the other hand, demand for labour has not grown fast enough as a result of two factors. First, economic growth has not been robust enough. Although economic growth has been rapid by historical standards in the last decade, the high growth of 6.1 per cent recorded in 2007 still falls short of the 7 per cent that is required to attain the Millennium Development Goals. Second, the employment elasticity of output growth has been very low mainly because the sectors that have been driving growth in Africa in the last decade are capital-intensive enclave sectors. The problem of high unemployment and underemployment has been exacerbated by the current global economic crisis.

ERA 2010 argues that the global economic crisis provides African countries with a unique opportunity to pursue policies that will not only counter the effects of the recession but also lay the foundation for structural transformation and rapid and sustainable growth based on diversified economies and, more important, rapidly develop large and labour-absorbing sectors of African economies in order to create jobs to employ the rapidly growing labour force. This can be done through appropriate investment in infrastructure and human capital, renewed and creative efforts at domestic resource mobilization, factor market reforms, incentives to support private-sector employment and efforts to increase productivity and incomes in the informal sector.

The major drivers of African economic growth in the last two decades have been increased accumulation, especially in infrastructure, human capital, and to some extent stable macroeconomic and political environments, as well as improved economic management. This increased accumulation has been financed mainly by increased export earnings resulting from increased commodity prices, increased FDI flows to exploit natural resources and increased ODA and remittances from abroad. The sectors that drove economic growth are generally small resource-extractive sectors, subject to extreme volatility caused by changes in world commodity markets, and have low employment elasticities. These flows decreased with the global economic crisis, leading to slow economic growth and increased unemployment.

Generating rapid employment growth will require rapid economic growth rates above those achieved in the last decade, as well as a structural shift of the growth-

driving sectors of the economy away from sectors which are not labour-intensive to large and expanding highly labour-intensive sectors. In this regard, agro-industry, labour-intensive manufacturing and services, especially service exports, are sectors to be explored and expanded. This structural transformation will not only decrease the boom-and-bust episodes tied to the volatility of international commodity prices that have characterized economic performance in Africa, but will allow African countries to pursue effective economic policies that are not dictated by what happens elsewhere. In addition, employment policy should pay special attention to increasing the productivity and incomes of the informal sector by virtue of its size and contribution to employment.

African countries can pursue several short-term and long-term policies to achieve the needed structural transformation that generates high growth with increased employment creation. These policies should be based on a comprehensive development planning framework that embodies well-designed and implemented macroeconomic and sectoral strategies. In the short term, African countries can pursue expansionary countercyclical fiscal and monetary policies that focus on expanding investment in infrastructure and human capital formation. This investment should, however, focus on labour-intensive activities, and employment should target vulnerable groups. Given the slack in resource use and because of prudent fiscal policies in the past, several African countries have the fiscal space to engage in expansionary policies without destabilizing the macroeconomic environment. In addition to fiscal expenditure in these areas, African countries could use the provision of social services, such as education, health, water and sanitation, as mechanisms for job creation in the short run.

Long-term policies will involve structural transformation that can be achieved through several possible means. These include investing the rents from commodity exports in labour-intensive non-resource sectors to expand output and increase productivity in these sectors; making resources (e.g. financing) available to priority sectors at reasonable rates or in an expeditious way; aggressive efforts to attract FDI in non-resource-extraction sectors, especially in the areas of service exports, agro-industry and “green” industries, such as renewable energy, where Africa may have a comparative advantage; and creating an enabling environment for the private sector to invest and create jobs. In addition, job creation in Africa may depend on the size of markets. Given the small sizes of individual African economies, rapid growth and job creation may depend on how much African countries have access to international markets. Without waiting for the Doha round of world trade negotiations to conclude, intra-African trade offers opportunities for individual African countries to enlarge their markets and reap the benefits of scale and scope economies.

Long-term policies aimed at job creation will also involve labour market reforms in African countries. Structural transformation implies the destruction of old jobs and

*Economic transformation is essential for high-level, employment-intensive sustainable growth in Africa*

**Factor market reforms and increased productivity are essential for high employment-generating growth**

the creation of new ones. This is possible only if the labour market is flexible enough to allow employers to get rid of workers whose skills are no longer needed and engage those whose skills are needed, as well as allowing wages to reflect skill scarcity instead of setting wages without regard to relative scarcity. Indeed, general factor market reforms to remove distortions that encourage capital-intensive production techniques at the expense of labour-intensive ones are necessary in African countries in order to encourage the use of labour-absorbing technologies. One of the reasons given for slow economic growth in Africa has been the lack of skilled labour, yet an increasing number of university graduates are unemployed, suggesting a mismatch between the skills African education systems are producing and those businesses need. Long-term employment policy should address this mismatch through appropriate curricular and pedagogical reforms.

Given the excessively high and persistent unemployment faced by vulnerable groups, special employment policies have to be targeted on these groups if unemployment among them is to be reduced. Among the reasons given for high unemployment among these groups are lack of skills and work experience, geographical mismatch and labour market discrimination. Targeted skill training and employment programmes for these groups, as well as efforts to decentralize employment in order to bring employment closer through rural industrialization, may be necessary. Finally, where possible, affirmative action programmes in employment for these groups may be necessary.

One of the factors that have accounted for slow growth in Africa is slow or no growth in total factor productivity. Accelerating the growth rate of income will involve efforts to increase total factor productivity growth in Africa. African countries can achieve this through a number of policies such as technology transfer through non-resource-related FDI, a serious and credible commitment to research and development in Africa, the provision of better and more efficient infrastructure, and continuous improvements in economic management combined with macroeconomic and political stability. Finally, there cannot be increased employment if African countries are not committed to employment creation. Employment creation should therefore be an integral part and parcel of Africa's development agenda: programmes, projects and policies should be evaluated in part on their capacity to generate employment. The effective design and implementation of employment-generating growth strategies requires accurate and timely employment data that should be regularly collected and analysed by African countries.

While African countries have common characteristics, there is also heterogeneity among them. This means that not all policy prescriptions will be applicable to all countries. For example, while open unemployment may be the major problem in North African countries, underemployment or vulnerable employment may be the

major issue in West Africa. This means that appropriate policies may differ across countries, regions or income levels.

The current global economic crisis has demonstrated the vulnerability of Africa to the fortunes of the global economy. It has also demonstrated that Africa cannot rely on external sources to finance its development in a sustainable way. There is therefore a need for African countries to increase their efforts to mobilize domestic resources to finance development. In the final analysis, Africa's development is the responsibility of Africans, and the argument that Africa is a poor continent that cannot finance its own development is getting tired. If Africa can increase its savings rate to those of East Asian countries, it will have enough resources to finance its development needs. Innovative and effective ways of increasing the savings rate, raising the efficiency of tax collection and expanding the tax base should be an important priority in Africa.

*The argument  
that Africa is too  
poor to finance its  
own development is  
getting tired*

## Conclusion

The global economic crisis has continued to have a negative impact on African economies with economic growth falling to 1.6 per cent in 2009, export volumes and earnings falling because of declining world commodity prices, and a concomitant increase in fiscal and international balances. These developments have reduced Africa's ability to finance accumulation and provide needed social services. While data for 2009 are not yet available, it is expected that the crisis resulted in increased unemployment and underemployment in African countries, thus exacerbating the already high unemployment rates.

Given that global commodity markets are expected to stabilize in the medium term, the medium-term outlook for Africa is a little better than it was in 2009, assuming macroeconomic and political stability as well as continued improvements in economic management. African economies are projected to grow at 4.3 per cent in 2010. However, this will not be enough to achieve the Millennium Development Goals, and unemployment may continue to rise in 2010. The challenge facing African countries in the short and long term is to find ways of solving the triple problems of slow growth, high and rising unemployment and increasing poverty in a time of global economic crisis. The message of ERA 2010 is that while the global crisis poses a severe development challenge to Africa, it also provides a unique opportunity for African countries to pursue policies which will enable them not only to recover from the recession but also to lay the foundation to transform their economies for sustainable long-term growth that generates employment and rapidly reduces poverty.

**To reduce  
poverty,  
employment-  
focused growth  
should target  
vulnerable groups**

In the short run, African countries should pursue expansionary countercyclical fiscal and monetary policies to finance investment in infrastructure, education and health care as a way to recover from the economic downturn. A large proportion of the projects in this package should focus on labour-intensive projects, such as rural roads and water projects. While these expansionary policies may result in fiscal deficits, a large number of African countries have the fiscal space to pursue such policies given their prudent fiscal policies in the past; hence they can afford moderate fiscal deficits without rekindling the macroeconomic instability of past generations.

Long-term strategies involve investment that will transform the structure of African economies from reliance on low-employment-generation natural resource extraction to high-employment labour-intensive manufacturing, agro-industry and service provision. In addition to changing the pattern of investment and production, it will also require not only an increase in the quantity of human capital, but a change in the type of human capital that will be provided. Factor markets will have to be reformed to encourage the use of labour-intensive production techniques, in contrast to current policies which favour capital-intensive techniques. There is a need to pay special attention to vulnerable groups, such as women and young people, with special targeted employment interventions.

Moreover, African countries need to pay attention to policies that increase growth in total factor productivity. These policies may include improved economic and political management as well as political stability, technology transfer and investment in research and development. Finally, Africa cannot continue to rely on the international community to finance its development agenda. It is therefore important for African countries to boost their efforts to increase the mobilization of domestic resources to finance African development through innovative programmes. Increasing the savings rate to the levels attained by East Asian countries, will generate substantial revenue to finance development in Africa. Financing development from domestic resources will not only reduce the volatility inherent in African development, but will also make Africans “masters of their destinies”.

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# Developments in the World Economy and Implications for Africa<sup>1</sup>



The most important development in the global economy in 2009 was its beginning to pull out of a recession unprecedented in scale in the post-World War II era, with positive signs of global recovery since the second half of the year. The strong and worrying consensus that the world was heading inevitably into a 1930s-style abyss abated. Stock markets recovered throughout the developed and developing worlds, although at varying pace. International trade and global industrial production began recovering noticeably, with an increasing number of countries registering positive quarterly growth in Gross Domestic Product (GDP). This economic revival was driven in no small part by the effects of the massive policy stimuli injected worldwide since late 2008.

However, and despite these positive signs, the recovery is still expected to be slow. The pricking of the housing and stock bubbles and re-adjustment of the global imbalances between consumption in the USA and other advanced economies and savings in China and some other developing nations was rapid and painful. Governments and central bankers took drastic measures to counteract the sudden slump but these measures helped only partly in developed nations, which still have trillions of dollars of de-leveraging to complete.

Developing nations were in a somewhat better position. The developed world contracted by 3.5 per cent in 2009 whereas developing countries recorded an average growth of 1.9 per cent. For the world as a whole, the year 2009 was characterized by negative growth in GDP of around -2.2 per cent. The volume of world exports dropped by 12.4 per cent, again unheard of in the post-war economy (UN-DESA, 2010). Foreign direct investment (FDI) and remittance inflows to developing countries declined rapidly. Commodity prices rebounded ahead of the recovery but the weak internal demand in a number of current account-deficit countries, including the USA, represents the main challenge for growth prospects in 2010. Appropriate macroeconomic and financial policies are still required, to sustain strong demand in key countries mainly in the developed world.

None of this is expected to stop unemployment from rising. The USA, together with many European countries, passed the 10 per cent unemployment rate in 2009.

*The world economy began to pull out of the recession but the recovery is slow*

<sup>1</sup> The analysis in this chapter relied mainly on data obtained from UN-DESA.

**Africa is benefiting from China's strong stimulus-induced economic growth**

Although the unemployment rate in developing nations is likely to be lower, the sheer size and relative poverty of the population in countries such as China, India, Brazil and Indonesia imply that social tensions may grow.

Africa was severely hit by the global economic downturn but there have been signs of recovery. China's strong stimulus-induced economic growth is benefiting commodity exports from the continent in terms of both export and inward investment. In addition to the sharp downturn in global demand and commodity prices, Africa was adversely affected by the tightening of financing conditions, weak household spending and low business confidence (EIU, 2009a). However, growth is expected to recover in 2010, spurred by the modest global recovery and increased inflows of investments especially from China.

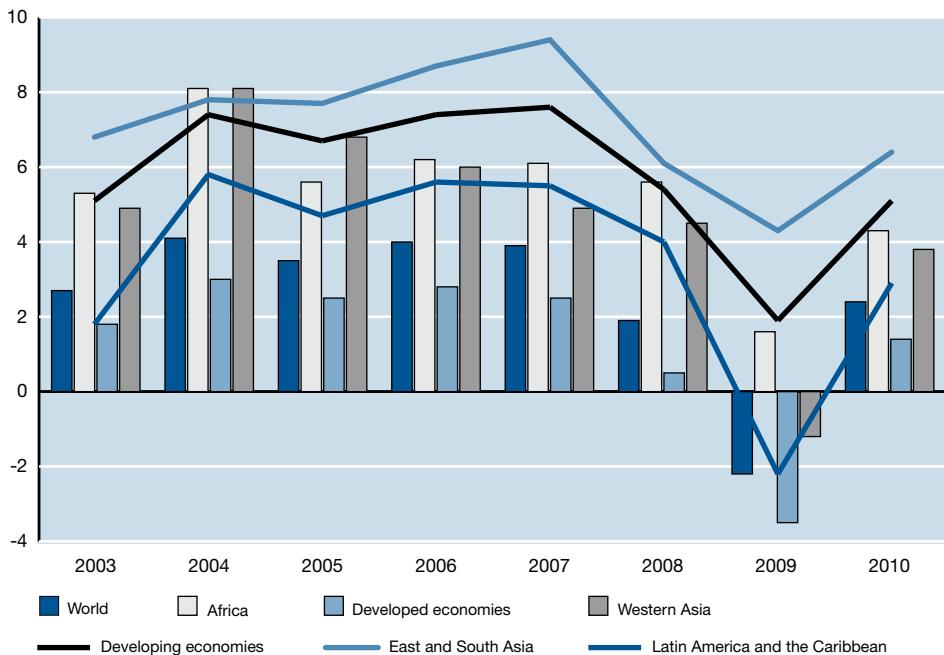
## 1.1 Recovery from the significant global economic contraction in 2009 will be slow

The world economy began to stabilize in 2009, helped by unprecedented macroeconomic and financial policy support. However, the recession is not over in a few countries and recovery is likely to be sluggish (IMF, 2009a). Following a disappointing first quarter, during which the global economy contracted as fast as during the fourth quarter of 2008, a return to modest growth at the global level started in the third quarter. Accordingly, global activity contracted by 2.2 per cent in 2009, down from 1.9 per cent in 2008, with activity slowing in both advanced and emerging economies (figure 1.1).

The world slowdown was somewhat less sharp than predicted. However, for the advanced economies as a group, sustained pickup in activity is still projected to show only by the second half of 2010 (IMF, 2009a; UN-DESA, 2010; and EIU, 2009a). In these economies, business and consumer sentiment continued to retreat in 2009, while industrial production weakened further. However, 2009 saw signs of improving business activity across emerging economies.

**Figure 1.1**

GDP growth rates of major regions, 2003-2010



Source: United Nations 2009b.

The weakening Dollar as well as an expansionary fiscal and monetary policy somewhat softened the blow of the crises in the USA during the first half of 2009. Despite drastic financial support measures taken by the US Treasury and the Federal Reserve (FED), economic growth contracted by 2.5 per cent in 2009. The US economy is now projected to grow by 2.1 per cent in 2010, since consumption started to recover gradually as a result of declining oil and food prices and more relaxed credit conditions (UN-DESA, 2010).

The situation in Japan also deteriorated dramatically with an estimated GDP drop of 5.6 per cent in 2009, compared with a decline of 0.7 per cent in 2008. The country's recession was mainly due to weak export performance and a large decline in industrial production, the main source of growth in Japan, in the first half of 2009.

In the Euro area, the fall in activity reached 4.1 per cent compared with a positive growth rate in 2008 of about 0.9 per cent (UN-DESA, 2010). As a result of the global recession, consumer and investor confidence dropped to very low levels. This led to re-allocation of productive capacities to developing countries as well as increased imports from cheaper sources, mainly China and India. The sustained strong Euro, compared to other international currencies, impacted negatively on European exports to the rest of the world. Growth in the Euro area is expected

*The strong Euro impacted negatively on EU exports to the rest of the world*

**Positive growth  
in developing  
economies in 2009  
despite the crisis**

to remain low in 2010 compared to other developed countries as both domestic demand and exports are expected to remain weak.

Growth in developing economies declined to 1.9 per cent in 2009, down from 5.4 per cent in 2008. For East and South Asian countries, growth was less affected by the global recession and growth rates are expected to reach 4.3 per cent in 2009 against 6.1 per cent in 2008. This relatively mild slowdown was due to strong domestic demand, which partly offset weakening external demand. In China, GDP growth moderated from 9 per cent in 2008 to 8.4 per cent in 2009 and is expected to recover slightly to 8.7 per cent in 2010. Exports slowed down due to weak demand from industrialized countries.

However, the continued depreciation of the Yuan compared to the Euro and Yen, boosted Chinese exports, mainly to the European and Japanese markets during the second half of 2009 despite the sustained rise in domestic labour costs. These positive growth achievements can also be attributed to the fiscal stimulus package of \$586 billion (14 per cent of GDP) implemented during 2008 and 2009. The Government's objective was to stimulate domestic demand by reducing taxes and investing in infrastructure, health care and education and promoting agriculture and environmental protection (see chapter 2).

For Western Asia, the decline in oil prices and domestic consumption and investment spending in 2009 underpinned a 1.2 per cent contraction of GDP in 2009 compared with a growth of 4.5 per cent in 2008. Western Asia is expected to grow at 3.8 per cent in 2010, thanks to the historical trend in stabilization of these economies during the past decade (UN-DESA, 2010).

Latin American and the Caribbean (LACs) contracted by 2.2 per cent in 2009 compared with 4 per cent growth in 2008. The main factors for the contraction include declining exports to the USA, a major market for LAC countries, decreased domestic demand and lower commodity prices. Moreover, several countries were also negatively affected by falling remittances. GDP growth in Africa decreased from 4.9 per cent in 2008 to only 1.6 per cent in 2009 but is expected to recover to 4.3 per cent in 2010 (UN-DESA, 2010). Declining commodity prices and exports, and falling Foreign Direct Investment (FDI), aid and remittances were the key factors responsible for the relatively weak economic performance of the continent.

Going forward, the pace of global recovery depends on the balance between opposing forces. Financial risks remain elevated, as high losses in the context of the global slowdown in 2009 could add to strains on capital and exacerbate the squeeze on credit availability. The presence of toxic assets in the balance sheets of many banks across the world continues to pose an additional challenge for the stability of international capital markets. Moreover, inflation is a rising concern that could constrain

the policy response to slower growth in 2010 and beyond. On the positive side, demand in advanced and emerging economies might be more resilient than projected in the wake of recent commodity price and financial shocks.

Risks related to global imbalances also remain a concern. The continuing decline in the Dollar and slow growth of the US economy relative to its trading partners has put the US current account deficit on a more sustainable trajectory. However, the pattern of exchange rate adjustments has borne little relationship to the pattern of current account balances, as the Euro and other flexible currencies have carried the brunt of the Dollar adjustment. There has been less movement in the currencies of several emerging economies recording large external surpluses. Rising international oil prices have increased the projected current account surpluses of oil-exporting countries.

*“ Financial risks remain elevated and exacerbate the squeeze on credit availability ”*

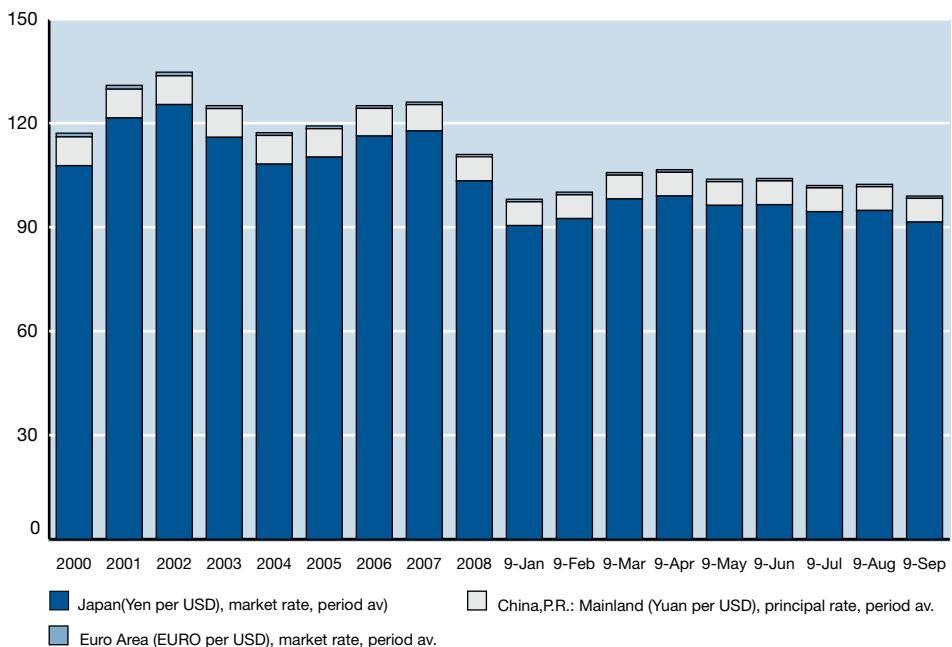
## 1.2 Continued depreciation of the US Dollar overshadows the international foreign exchange markets

The international foreign exchange markets were marked in 2009 by strong depreciation of the US Dollar, which lost almost 20 per cent of its value against the Euro since mid-February 2009 (figure 1.2). The Dollar also depreciated against the other main international currencies including the Yen and the Swiss Franc. Against the Pound Sterling, overall depreciation of the Dollar was about 1 per cent in 2009 due to a drop in the Pound at the beginning of the year. The Dollar was affected by the slower pace of growth in the US economy, amplified by the financial crisis and by losses at major American banks. This led to a liquidity and credit crisis, pushing the FED to ease monetary policy by reducing key rates by 75 base points both for the Federal Fund rate and for the discount rate over the year 2009. This brought the Federal Fund rate down from 1 per cent to 0.25 per cent and the discount rate from 1.25 per cent to 0.50 per cent.

For the European Central Bank (ECB), despite keeping main interest rates at 1 per cent, the Euro continued to gain against the Dollar, owing to successive reductions implemented since October 2008. As mentioned above, this was a major factor that hurt European exports to the USA. While Australia's central bank raised rates three times in 2009, the Bank of England signalled that it was not in a rush to increase borrowing costs from record lows in order to mitigate the impact of the global crisis on the British economy (Sentance, 2009). The Bank of Japan announced new measures in November 2009, including an offer of three-month loans to banks at 0.1 per cent to combat deflation.

**“ Volatility in international exchange markets intensified the crisis ”**

**Figure 1.2**  
*Trends in international foreign exchange markets*



Source: International Financial Statistics (IMF, 2009b).

### 1.3 Macroeconomic imbalances intensified in 2009

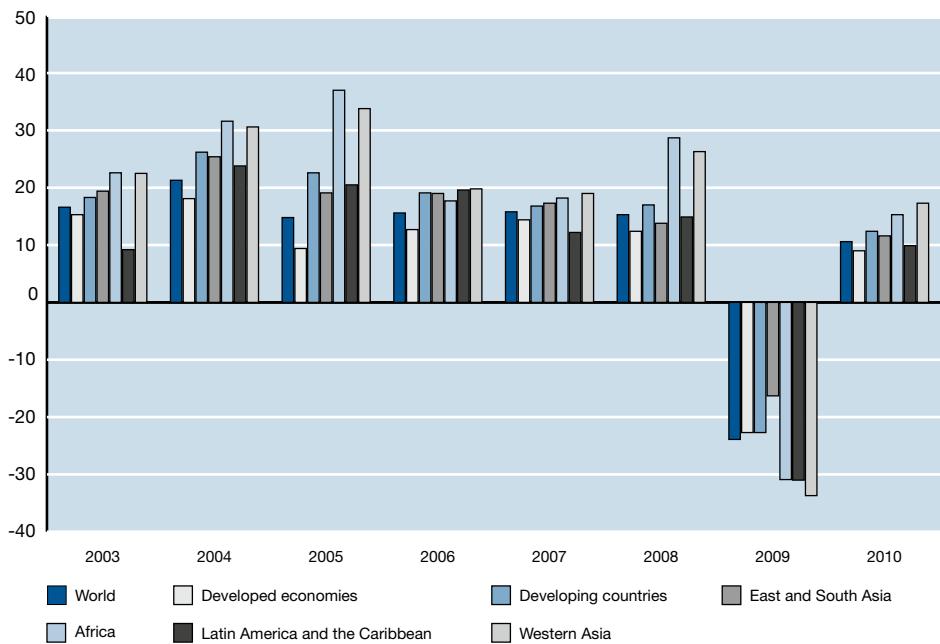
The impact of the fall in world GDP on world trade growth was severe in 2009. Triggered by a retrenchment in import demand in major developed countries and also impeded by tightening trade financing, trade flows fell by more than 12 per cent in 2009. Since the second quarter of 2009, these trade flows have been recovering but this has partly been driven by moderation in inventory reduction, with import demand from consumption and business investment remaining weak (UN-DESA, 2010). A mild growth of 5 per cent is forecast for the volume of world trade in 2010. However, this aggregate picture dramatically contrasts with some region-specific situations.

For the USA, the growth in imports fell by around 14 per cent while the growth in exports (in volume terms) contracted by 10.4 per cent in 2009. In addition, the drop in fuel prices since the summer of 2008 helped to reduce the import bill by around \$US80 billion in 2009. For the developed Asia and Pacific, the momentum of rebound in exports moderated more recently, partly reflecting the cyclical nature

of the global inventory adjustment. Exports will continue to recover in 2010 but only at a moderate pace, particularly in value terms, due to the negative effect of the appreciation of the Yen and domestic deflationary pressure (UN-DESA, 2010).

In Africa, aggregate exports declined faster than imports due to the sharp drop in the prices of oil and minerals. Hence, Africa's total trade fell in 2009. In 2010, the continent's trade is projected to record positive growth (see figure 1.3).

**Figure 1.3**  
*Annual average growth rates of exports by regions (%)*



**Source:** UN-DESA (2009a), 2008 partial estimates, 2009 and 2010 forecasts.

The sharp decline in imports experienced by the USA due to depreciation of the Dollar and slowing domestic demand, led to a reduction in the current account deficit relative to GDP by more than 2 per cent points in 2009 (figure 1.4). In the Euro area, the deficit remained at 0.7 per cent of GDP in 2009, the same as in 2008, owing to a slowdown in both foreign trade and GDP.

Regions with current account surpluses in 2008, namely Japan, China and India, mostly experienced a decline in these surpluses in 2009. Russia experienced the highest decline in current surplus from 6.1 per cent in 2008 to 3.6 per cent in 2009. China's current account balance was also negatively affected by the global recession with its current account surplus falling by 2 percentage points in 2009 compared to 2008.

*“Global imbalances intensified and become a major challenge for global recovery”*

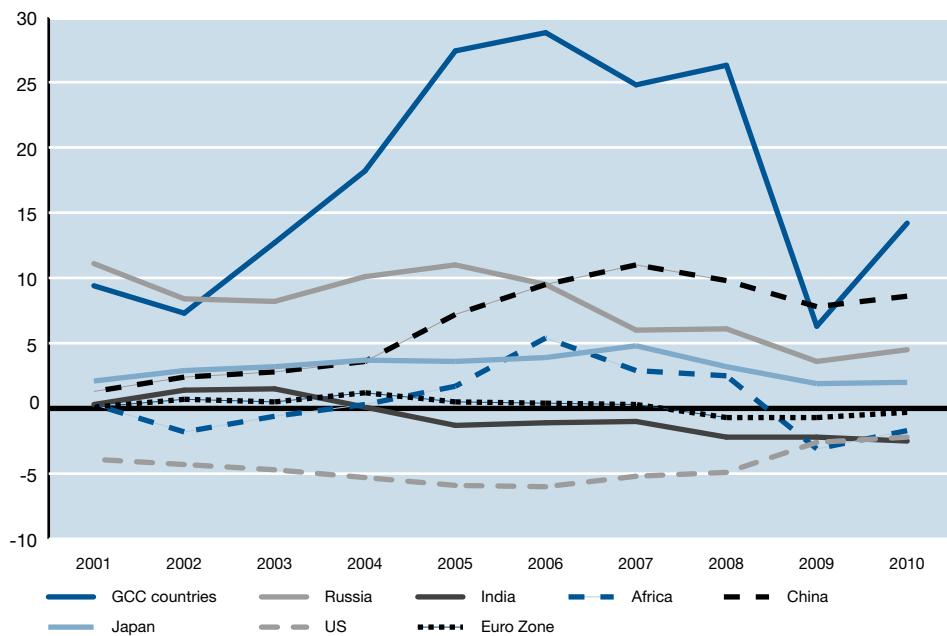
Africa's current account moved from a surplus to a deficit

The Gulf Cooperation Council (GCC) countries experienced the highest current account surpluses in 2009 behind China. However, their current account surplus saw the highest decline in line with a falling oil price, from a surplus of 26.3 per cent of GDP in 2008 to only 6.3 per cent in 2009.

Africa is one of the few regions where the current account moved from a surplus to a deficit, reflecting the significant adverse effects of the global economic slowdown rather than the global financial crisis on the continent. The continent's overall current account deficit was 3.1 per cent of GDP in 2009 compared to a surplus of 2.5 per cent in 2008. Adjustments in current account imbalances were mainly driven by exchange rate adjustments and, to some extent, by strengthening of domestic demand in surplus countries. For 2010, further changes in the current account balances are expected for most regions with a tendency towards reducing deficit and improving surplus as a result of the recovery.

**Figure 1.4**

*Current account balances for selected regions and countries, 2004-2010 (% of GDP)*



*Source:* IMF (2009a); 2009 estimates, 2010 forecast.

Despite the global recession, many developing countries continued increasing their foreign reserves. However, exchange rate fluctuations can have significant impact on these reserves given that the most common currency for holding foreign currency is the Dollar with 64 per cent. The Euro is increasing its share and now accounts for 26 per cent of global reserves.

Global reserves increased by 13 per cent in 2009 (table 1.1) and are expected to grow by 11 per cent in 2010. Except for Russia and sub-Saharan Africa (SSA), all major emerging and developing regions contributed to this increase. Partly, this increase in reserves was driven by current account surpluses derived from the increasing exports of most emerging countries. China contributed 96 per cent of world reserve increase, thanks to its large current account surpluses.

With large foreign exchange reserves, a country can target a certain exchange rate. For example, China has been trying to maintain a stable exchange rate between the Yuan and the Dollar, in terms of the levels at which the US currency is depreciating vis-à-vis other major currencies. This has meant selling Yuan and buying Dollars and constitutes one of the reasons why a significant share of China's foreign reserve holdings is held in Dollars. Similarly, large foreign exchange reserves in GCC countries, allow them to maintain the values of their currencies, which are pegged to the Dollar, despite the deterioration of their current account balances.

Large foreign reserves can also act as a guarantor for liabilities such as external debt. If a country holds substantial foreign debt, holding foreign currency reserves can help to give more confidence in the country's ability to pay. If countries have dwindling foreign currency reserves, there is likely to be deterioration in that country's credit worthiness. This was the case with most developing countries, especially those in Africa. The drop in commodity prices and export revenues negatively affected the level of SSA foreign reserves, which declined by around 4 per cent in 2009 but was projected to partly recover in 2010 by 5 per cent (table 1.1).

*“ Declining foreign reserves reduced the ability of African countries to manage exchange rate and external debt ”*

‘‘ Global fiscal balances deteriorated in 2009 ’’

**Table 1.1**  
*Foreign reserves in selected regions and countries, total and months of imports, 2002-2010*

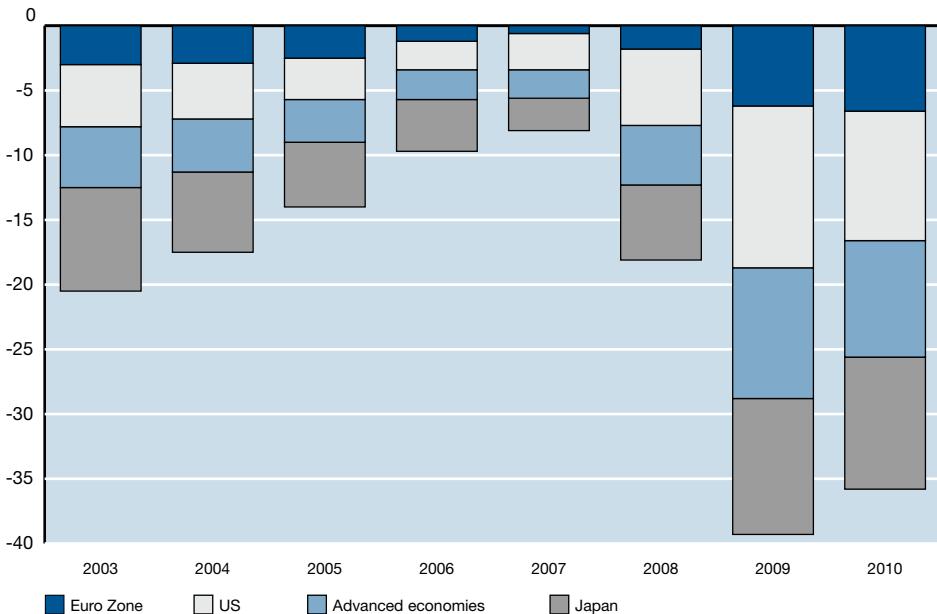
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Foreign reserves, USD billion</b>									
World	853	1132.2	1562.3	1993	2698	3940	4299	4854	5410
Arabian Peninsula and the Gulf	82.3	86.9	109.7	131.3	166.5	272.3	259.4	261.5	268.8
China	295.2	412.2	618.6	825.6	1072.6	1534.4	1953.3	2485.2	2950.5
Economies in Transition	163.4	221.2	298.9	381.8	555.0	793.0	755.5	758.8	775.1
India	70.4	102.3	130.4	136.0	176.1	273.9	254.0	274.5	293.4
Latin America	163.5	199.7	227.5	263.9	321.8	460.3	511.9	532.0	567.2
Russian	47.8	76.9	124.5	182.2	303.7	476.4	427.1	408.7	415.7
Sub-Saharan Africa	30.7	32.9	52.7	72.2	102.0	129.4	137.5	132.8	139.5
<b>Foreign reserves (months of imports of goods and services)</b>									
Arabian Peninsula and the Gulf	5.6	5.0	4.9	4.8	5.1	6.5	4.8	5.7	5.4
China	10.8	11.0	12.2	13.9	15.1	17.8	19.0	27.6	28.8
Economies in Transition	5.1	5.5	5.8	6.2	7.3	8.1	6.2	9.1	8.5
India	11.1	13.2	11.9	9.0	9.4	11.8	8.2	11.2	10.8
Latin America	4.9	5.8	5.5	5.4	5.5	6.7	6.1	8.0	7.4
Russian	6.8	8.9	11.4	13.3	17.4	20.2	13.9	19.2	17.6
Sub-Saharan Africa	4.0	3.4	4.4	5.0	6.0	6.2	5.6	6.5	6.2

*Source:* Economist Intelligence Unit, 2009c, estimates for 2009 and forecast for 2010.

The fiscal balance deteriorated in all industrialized countries as well as in developing countries and regions. This deterioration was mainly attributed to lower fiscal revenues due to the growth slowdown and higher expenditure driven by the stimulus packages implemented in many countries around the world. The stimulus programmes implemented by the rich countries aimed at supporting struggling industries and stimulating investment and domestic demand to counter the negative effects of the global recession. One year after their implementation, the most recent assessments of these programmes confirm their positive contribution to the relative recovery that began in the second half of 2009. Accordingly, analysts suggested that countries should continue implementing such programmes until the recovery is consolidated.

**Figure 1.5**

*Central government fiscal balances for selected regions and economies, 2000-2010 (% of GDP)*



*Source:* IMF (2009b); 2009 estimates, 2010 forecast.

*Note:* Data for other categories are not available from the IMF database.

The fiscal positions of most countries deteriorated, in some cases resulting from a combined decline in revenue and increase in stimulus spending, and in other cases, particularly for many low-income countries, mainly the declined revenue. The deterioration is found to be most significant in many developed countries (figure 1.5). For example, the general government budget deficit in the Euro area increased in 2009 to -6.2 per cent of GDP, from -1.8 per cent in 2008. It is forecast to reach -6.6 per cent in 2010 with the deficits surging to -14.8 per cent in Ireland and -9.5 per cent in Spain. In other developed countries, budget deficits surged to -12.5 per cent in the USA, and -10.5 per cent in Japan. In 2010, the budget deficit is expected to improve slightly to -10 per cent in the USA and -10.2 per cent in Japan.

Most developing countries experienced deterioration in their budget balance by about 3-5 per cent of GDP, but some oil-exporting countries and countries in South Asia experienced much larger increases. In Africa, the deterioration in public budget deficits accentuated the existing challenge of ways and means of financing developments and reducing deficits and debts. Most African countries were not able to achieve their development targets, such as the Millennium Development Goals (MDGs), even when their growth performances were still positive before the global crisis.

*The crisis exacerbated the challenge of financing development in Africa*

**“**  
World  
commodity prices  
rebounded due to  
growing demand  
from emerging  
economies  
**”**

## 1.4 World commodity prices rebound but remain below their peaks in mid-2008

In the fourth quarter of 2008 and the first quarter of 2009, commodity prices, as measured by changes in the primary commodity prices index, fell sharply from their record-high levels. However, they rebounded strongly in the following two quarters. Prices are expected to stabilize in 2010 and are thereafter likely to follow a moderately rising trend until mid-2011 as industrialized countries slowly recover from the deepest recession since the 1930s. The main driver of the price fluctuation is the growing demand from emerging economies, especially from China (IMF, 2009a).

From January to August 2009, international commodity prices rebounded by almost 30 per cent. At least five factors account for this rise. First and most importantly, there was a huge increase in Chinese demand, triggered by the stimulus plan that focused on public investment and build-up of commodity stocks. This led to a rise in demand for construction raw materials such as metals, and for energy. Second, cuts in production of some raw materials also brought about upward pressure on prices. In particular, the Chinese Government shut down uncompetitive and perilous firms operating for example in metal products. Third, upward revision of expectations of world demand for primary commodities pushed up prices that were undershooting because of the extremely bearish sentiment in the first quarter of 2009. Fourth, the rise in production costs, especially in agriculture, was perfectly transmitted to consumer prices. Finally, the weakening Dollar put downward pressure on the currency profits of producers, contributing to rising prices. These factors were especially evident in the oil market.

Crude petroleum prices rose on average to around 36 per cent above the commodity prices index, as a result of lower supply from the Organization of Petroleum Exporting Countries (OPEC) and a thirst for energy in China. In the fourth quarter of 2009, the rise in commodity prices came to a halt as the market became more balanced, not the least as a result of easing Chinese imports. Despite the rebound in world primary commodities in 2009, in dollar terms, the annual average of the world primary commodity index remains 18 per cent lower than the 2008 record figure. However, the expected increase in 2010 will be around 5 per cent of the world primary commodity index level in 2009 (table 1.2 and figure 1.6).

Commodity prices in real terms deflated with manufacturers' export prices bottomed out in the beginning of 2009. However, this bottom price was still relatively high historically, equivalent to the 2005 level and almost twice as high as prices prevailing in the 1990s. This weak price reaction to a severe recession can be partly explained by a permanent upward shift in demand in the commodity markets due

to the strong economic growth in China. As a result, the equilibrium price of many commodities rose, especially for industry-related commodities (AIECE, 2009).

## Crude oil

Crude oil prices behave much as any other commodity prices, with wide swings in times of shortage or oversupply. The crude oil price cycle may extend over several years responding to changes in demand as well as in OPEC and non-OPEC supply. After an upward price trend in effect since 2003, the international oil market was characterized by three very distinct periods in 2008–2009. The first lasted until the summer of 2008, with prices rising to a record level of almost \$150 a barrel by mid-July 2008. The second period, which started in July 2008, saw prices fall by some 75 per cent between July 2008 and February 2009. The third phase started in March 2009 and continues, with oil prices rising by 45 per cent of their level in February 2009.

Sustained economic growth in China and other Asian countries in 2009 contributed to the beginning of the rebound in world oil consumption. Although the OECD oil inventories (as measured in days-of-supply) remain high, optimism for a continued economic turnaround, combined with the impact of OPEC production cuts, have pushed oil prices upward.

In 2009, China and other emerging Asian economies continued to lead the global economic and oil market turnaround. Despite the continued decline in oil consumption by OECD members in 2009, oil demand growth in non-OECD countries more than offset these losses, leading to the first growth in global oil consumption since the third quarter of 2008 (EIA, 2009). Energy Information Administration (EIA) projects world oil consumption to grow in 2010 by 1.26 million barrel per day (bbl/d). Non-OECD countries are expected to account for the largest share of this growth. OECD oil consumption is projected to grow by only 0.1 million bbl/d in 2010, largely because of the projected turnaround in the USA, which would mark reversal of the downward trend in US oil consumption that began in 2005.

The West Texas Intermediate (WTI) oil prices for December 2009 averaged \$76 per barrel in October 2009 on the New York Mercantile Exchange (NYMEX), almost \$6 per barrel above the prior month's average for that contract. This was an increase of just over 8 per cent for the month, with expectations of an economic recovery and higher oil consumption offsetting concerns about current high oil inventories. Expected price volatility in crude oil markets declined in 2009, indicating that the markets were slightly more stable from the news of an economic turnaround led by Asia. For the five days ending November 5, the January 2010 WTI futures contract prices averaged just under \$80 per barrel, and the implied volatility for options on that contract averaged just over 41 per cent, compared to 49 per cent in October. The

*Oil markets  
were more stable  
and price volatility  
declined by late  
2009*

**Falling world  
food prices may  
reduce incentives  
for agricultural  
production**

EIA forecast assumes a growth rate of 1.9 per cent in the USA in 2010 and a world oil consumption-weighted real GDP growth rate of 2.6 per cent (EIA, 2009).

## Food and tropical beverages

The aggregate food price index reached its peak in June 2008 and has been falling steadily since then to reach in August 2009 only 77 per cent of its level of June 2008. The recent decline in food commodity prices underscores increased volatility and uncertainty in the global market environment. All major food and tropical beverages prices fell, except cocoa and sugar. Sugar prices increased by around 40 per cent in 2009 compared with 2008 while cocoa prices increased by 5 per cent during the same period. Maize and wheat export prices declined in 2009 compared with 2008 (figure 1.6). Since then, both commodity prices have been on the downward trend heading back towards early 2007 levels. The declines reached 25 per cent for maize and 30 per cent for wheat.

The global economic downturn was the main factor behind that trend. The slowing global demand reduced prices while uncertainty and negative market expectations dampened them further. On the supply side, falling prices reduced incentives for agricultural production and may again divert investment from food to fuel in the coming years. However, the financial crisis also pushed down input prices, especially during the first half of 2009 when energy prices dropped, resulting in a subsequent reduction in fertilizer and energy costs.

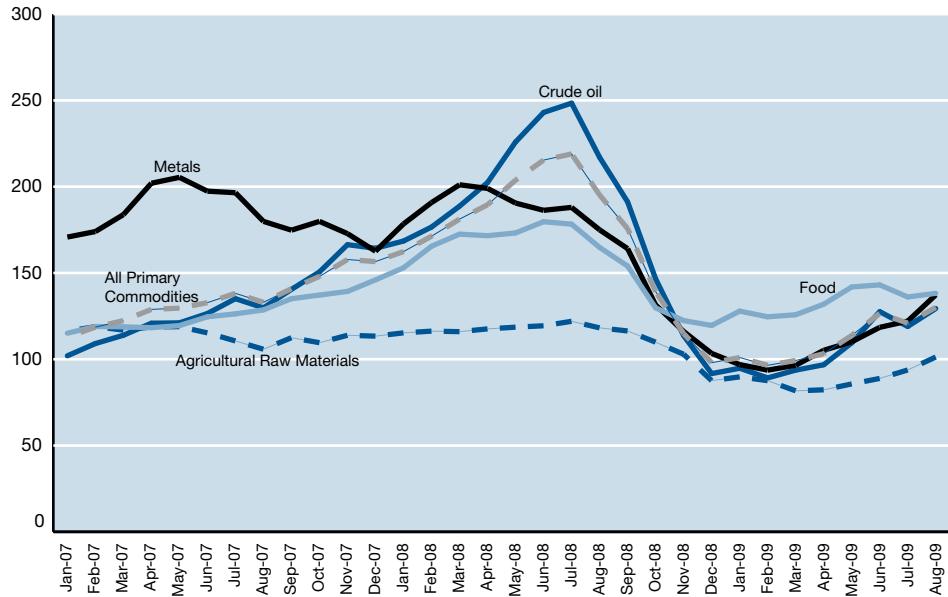
The net effect of the recovery on production will depend upon the relative speed of adjustment of output and input prices. It is possible that input prices will be more “sticky” and fall at a slower pace than product prices, in which case producer margins will be reduced further. Given that the recovery from the financial crisis is projected to be slow, the reduced access to credit may continue in 2010 and, together with falling commodity prices, could have very serious implications on global agricultural production and food security over the medium term.

## Agricultural raw materials, minerals, ores and metals

For agricultural raw materials, the drop in the world prices averaged 33 per cent between August 2008 and March 2009 (figure 1.6). However, their prices started to rise again since April 2009, recording an average increase of 24 per cent by the end of August 2009. On a yearly basis, international cotton prices declined by 15 per cent in 2009 while the international natural rubber prices dropped by 33 per cent. This important drop in international rubber prices was attributed to higher production in 2009, a major drop in oil prices, and lower world demand. Demand was particularly

low in China owing to the adverse effect of the international economic crisis on car sales and thus on demand for tires (70 per cent of the final use of rubber).

**Figure 1.6**  
*Indices of primary commodity prices, 2007-2009 (2005=100, \$US)*



**Source:** IMF (2009a).

In 2009, world prices of base metals declined by 32 per cent relative to 2008 (table 1.2). The prices of copper, zinc and lead declined also because of a sizeable drop in international demand during the period between the second half of 2008 and the second half of 2009, mainly in OECD countries. International copper prices declined by 32 per cent in 2009 due to weaker demand from developed countries suffering from economic recession. Aluminum prices continued the downturn that began in 2008, posting a 40 per cent drop in 2009. The very low level of international metal prices led several producing countries to close a number of mines and halt work at production sites, especially in developed countries.

“  
Changes in demand in emerging economies strongly affect primary commodity markets

**“ Mineral and metals production most affected by the crisis ”**

**Table 1.2**  
*Indices of selected primary commodity prices, 2003-2010 (2000=100)*

Commodity	2003	2004	2005	2006	2007	2008	2009	2010
ALL COMMODITIES	105.1	125.5	140.8	183.6	207.2	256.6	209.4	219
Crude petroleum	102.4	133.8	189.1	227.8	251.1	343.8	214.9	253.6
Food and tropical beverages	103.1	116.7	127	149.6	162.5	228.1	228.1	228.1
Wheat	126.8	114.9	109.2	128.5	209.1	288	201.6	211.7
Maize	118.9	124.9	109.9	136.8	189	253.2	189.9	205.1
Rice	97.9	120.6	141.2	149	163.1	343.6	274.9	269.4
Sugar	86.7	87.6	120.9	180.6	123.3	156.5	219.1	186.2
Coffee	80.6	92.3	131.8	144.8	166.3	192.3	169.2	177.7
Cocoa	197.7	174.5	173.3	179.4	219.9	287.1	301.5	316.5
Palm oil	142.9	151.9	136.1	154.2	251.5	305.8	183.5	205.5
Agricultural raw materials	112.4	123.5	132.3	152.2	169.3	202.2	161.8	175.2
Cotton	107.1	103.6	91.5	97	106.8	120.8	102.1	111.1
Tropical logs	114.3	136.3	136.7	130.2	155.7	216.8	188.8	190.5
Rubber	162	194.9	224.4	315.2	342.3	391.3	267.3	323.4
Minerals, ores and metals	97.6	137.3	173.2	277.7	313.2	332.4	228	259.5
Aluminium	92.4	110.8	122.5	165.9	170.3	166.1	101.3	116.5
Copper	96.6	152.8	198.4	361.2	376.5	383.6	260.8	313
Gold	130.3	146.6	159.4	216.6	249.7	312.4	312	312

**Source:** UN-DESA (2009a).

## 1.5 Significant drop in global inflation

Inflation declined in both developed and developing countries in 2009, due mainly to a fall in global economic activity, demand and commodity prices. Global inflation fell to 1.3 per cent in 2009 but is expected to pick up and reach 2.2 per cent in 2010, despite a significant easing of monetary policies in many advanced economies in an effort to stimulate economic activity. Although commodity prices are projected to recover in 2010, sluggish global economic growth will continue to weigh downward on inflation prospects (figure 1.7).

In developed economies, the inflation rate fell to 0.1 per cent in 2009 down from 3.3 per cent in 2008 but it is expected to rise to 1.3 per cent in 2010. Inflation in the advanced economies could remain below 2 per cent for quite some time depending on developments in commodity prices, especially for crude oil. The oil price spike was an important contributor to the increase in worldwide headline inflation in 2007-2008. Developed countries experienced generally lower inflation in 2009 in tandem with low or negative economic growth. This may lead to deflation in some

countries such as Japan, where the ongoing weak economy stifled inflationary pressures.

Emerging and developing economies experienced higher inflation than developed countries. Inflation in these countries fell to 4.3 per cent in 2009 but is expected to rise to 4.7 per cent in 2010 (UN-DESA, 2010).

In Africa and LAC, inflationary pressure remained relatively high in 2009 despite the slowing global demand and the decline in commodity prices. For Africa, inflation fell to 8.1 per cent in 2009 and is expected to fall to 6.1 in 2010 (see chapter 2). For LAC, inflation declined to 6.2 per cent in 2009 down from 7.8 per cent in 2008. In both regions, non-accommodative macroeconomic policies and imperfect price transmissions to domestic markets explain a major part of the low fall in inflation pressures.

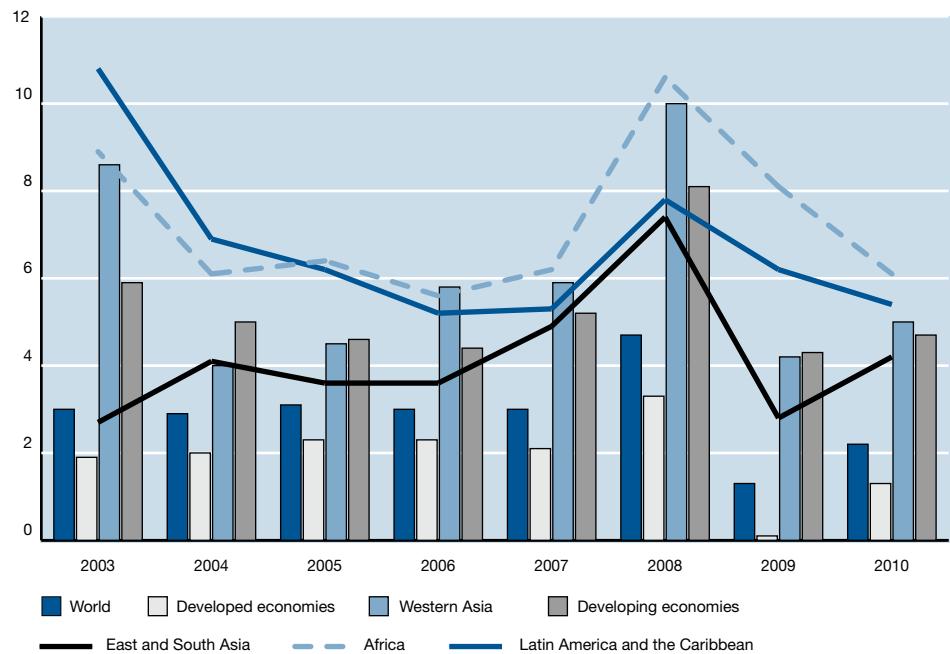
To some extent, inflation also depends on the ability and willingness of central banks to withdraw in a timely manner the liquidity that has been pumped into the banks and restore or reshape the transmission mechanism of monetary policy through the financial system. It depends also on the actual shape of the recovery. In fact, the steady decline in yields on long-term bonds reflects a falling inflation rate in tradable goods, such as copper, steel, wheat and soybeans. When they get too low, the prices of tradable goods have a strong impact on the prices of long maturity bonds. When domestic inflation declines significantly, countries can escape from the so-called liquidity traps by devaluing their currencies. However, this remedy is not available when tradable goods inflation is too low. Thus, since the recession began in mid-2008, the key challenge facing monetary policymakers around the world has been how to adjust their existing monetary policies to respond to the economic slowdown.

Measures were taken to relax monetary policies to provide support to boost domestic expenditures in 2009. Interest rates in developed countries were brought down, from 5 to 1 per cent in the space of four months in the UK. This helped offset some of the other negative recessionary pressures on demand and output. Measures were also taken by governments around the world to recapitalize and stabilize the banking system and relax fiscal policy.

*Fall in inflation rates was lower for Africa and Latin America*

*Relaxing monetary policies contributed to reduced global inflationary pressure*

**Figure 1.7**  
*Inflation rates in major regions and economies, 2001-2010*



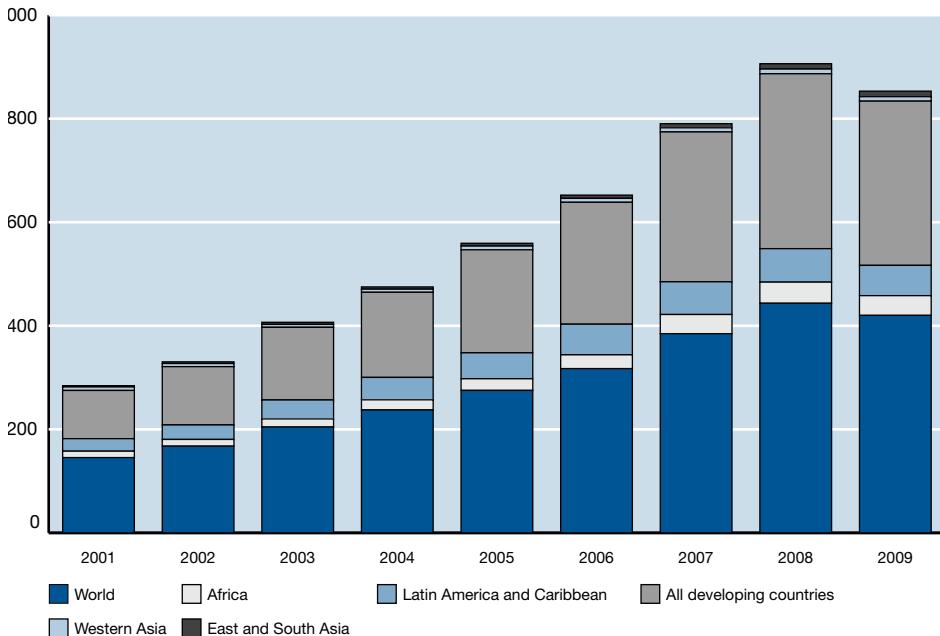
**Source:** UN-DESA (2009a), 2008 partial estimates, 2009 and 2010 forecasts.  
a. excluding Zimbabwe

## 1.6 Global remittances fall but not uniformly

Remittances provide a major source for external capital for many developing countries. They also have substantial poverty-reducing effects on households and beyond. Any significant decline in the flow of remittances puts many countries in a situation of vulnerability. This is particularly the case in countries where remittances represent a sizable percentage of capital inflows. While remittance inflows to developing countries grew between 2007 and 2008, there was a downward trend in the last quarter of 2008 and 2009 (figure 1.8). The global remittances inflows declined to \$420.1 billion in 2009, a 5.3 per cent decline over 2008 (World Bank, 2009a).

**Figure 1.8**

Remittance inflows by major beneficiary regions, 2001-2008 (\$US billions)



“ Remittance flows to Africa fell by 7 per cent in 2009 ”

**Source:** World Bank (2009b).

b Excluding Bahrain, Qatar, Kuwait and UAE; data for Iraq are only for 2005-2008, due to lack of data.

c Excluding Brunei Darussalam, Singapore and Taiwan for lack of data.

d Excluding Angola, Chad, DRC, Eritrea, CAR, Equatorial Guinea and Zimbabwe for lack of data.

Remittance flows to East and South Asia increased by 5 per cent in 2009 but declined by 5.5 per cent in Western Asia. Remittance flows to countries in Latin America and the Caribbean region in 2009 recorded the highest decline compared to other regions of the world (10 per cent). This reflects the fact that the crisis in the USA and Spain (in the construction sector in particular), key destination countries for Latin American migrants, started sooner than the crisis in other parts of the world (World Bank, 2009b).

As elaborated in chapter 3, remittances to Africa fell from \$40.8 billion in 2008 to \$38.1 billion (7 per cent decline) in 2009. Remittance inflows to Egypt, the largest recipient in North Africa, declined by 20 per cent in the first half of 2009. Morocco experienced a similar rate of decline in the first eight months of 2009. Flows to SSA were higher than expected. This was the case for Kenya, Nigeria and Uganda, where inflows had increased or declined slightly. For Nigeria, this was mainly explained by the more diversified destinations as well as skills and sectors of occupations. Immigrants working in sectors such as healthcare were less affected during the current global crisis than cyclical sectors such as construction.

**“ Global FDI flows contracted by 43 per cent in 2009 ”**

Remittances to Cape Verde, Senegal and Mali declined in the first half of 2009. Remittances may only see a shallow recovery in 2010 owing to the slow and largely jobless post-crisis recovery, coupled with the expected tightening of immigration controls and unpredictable exchange rate movements. In this respect, forecasts of remittance flows to developing countries show that they may start to grow again in 2010, although at a slower rate than before the crisis (see World Bank, 2009b and ODI, 2009).

The trends in global migration and remittance flows in 2009, as discussed above, cannot be attributed entirely to the global economic crisis. The changes in remittance flows were influenced by three other key factors including effects of the efforts by migrants to cut consumption, currency effects, and a high base effect resulting from the surge in flows in 2008<sup>2</sup>.

## 1.7 The crisis threatens inflows of FDI and ODA

In addition, to receipt of remittances, the global economic crisis reduced other capital inflows, especially FDI and official development assistance (ODA) inflows to the developing world from developed countries (UN-DESA 2009b).

Global FDI inflows contracted by 43 per cent in 2009. The decline in inflows to developed countries was significantly sharper than the drop in inflows to emerging and developing economies. The declines were especially marked in the USA and European Union (EU), by 62 per cent and 45 per cent, respectively. Among emerging and developing regions, the sharpest decline, by 30 per cent, was in East and South Asia. FDI flows to LAC declined by 42 per cent. China, the main emerging-market FDI recipient, had a decline of 31 per cent, while FDI flows to Africa and Western Asia dropped by 35 per cent and 46 per cent, respectively.

Despite improved global economic trends in the second half of 2009, significant recovery in FDI inflows is not expected to happen soon. Rising confidence and a rally in equity markets failed to boost FDI, since corporations remain very cautious and bank financing is constrained. Thus, the overall decline in global FDI flows is being accompanied by a distinct shift in the pattern of FDI flows.

Developed countries have consistently attracted the bulk of global FDI flows. High risk in many emerging and developing economies, the benefits of advanced institutions and infrastructure, and a superior overall business environment in developed

<sup>2</sup> A detailed discussion on the impact of these factors on remittance changes is available in ODI (2009).

countries have tended to outweigh the attractions of greater market dynamism and lower costs in emerging and developing countries. However, the share of emerging and developing economies in global FDI exceeded that of the developed countries by 2009, mainly because their overall economic performance was much better than that of the developed world, which experienced its worst recession since World War II.

Much of the superior performance of emerging and developing economies is due to the continued fast growth of China and India. In particular, rapid economic growth in China over recent years is reshaping the global economy. The remarkable pick-up in China's GDP growth in late 2009 led many African countries into an incipient recovery (see box 1.1).

However, even if China and India are taken out of the equation, most emerging and developing countries outperformed the developed world in 2009. They have, to some extent, "decoupled" from the developed economies. Globalization and increasing competitive pressure on companies have increased the cost in lost opportunities of not investing in emerging and developing countries.

Although the global economy is still weak, recovery is expected in 2010, although this will be sluggish and fragile. Global growth is unlikely to return any time soon to the trend rate of recent years, since it remains constrained by the after-effects of the crises in 2008 and 2009. As a result, although global FDI inflows are likely to grow in 2010, the recovery will be modest. The total amount of FDI inflows is expected to increase to \$1219 billion in 2010, compared to \$1010.7 billion in 2009, down from \$1782.4 billion in 2008 (EIU, 2009a).

The growth rates of FDI in the developed world and developing countries are expected to be similar, so that their shares in global FDI are unlikely to change significantly from 2009 (figure 1.9). Corporate plans for the next five years, as reflected in the recent Economist Intelligence Unit (EIU) survey, "Survive and Prosper", imply that emerging and developing economies will attract considerable FDI and probably more than developed countries (EIU, 2009b).

Just fewer than 60 per cent of companies expect to derive more than 20 per cent of their total revenue in emerging markets in the next five years - almost double the present proportion of 31 per cent. This would suggest that the shift in the distribution of global FDI flows in 2009 is a longer-term development and not just a transitory phenomenon.

*More FDI flows to emerging and developing countries than developed countries*

### **Box 1.1**

#### *China's rising economic prominence*

The economic rise of China is arguably one of the major forces reshaping the world economy. Thanks in part to the reforms that started in 1978, the country has been able to capitalize on some of its comparative advantages including its population size and landmass. As a result, it has undergone impressive economic transformation over the last three decades, moving from an agrarian economy to being a leading world supplier of labour-intensive manufactures. Its influence across the world became multifaceted as its economy expanded over the years. Besides being an important trade player and a key recipient of FDI, the country is increasingly emerging as a significant investor, donor and financier. Such rising prominence translates into its current role as a powerful growth engine for global economic growth, wielding growing power in the new global governance structures such as the Group of Twenty (G-20).

China's trade expansion mirrors success in slotting into the global division of labour, with the country importing industrial technology and capital from advanced developed countries, and primary commodities from resource-rich countries while exporting labour-intensive goods, particularly manufactures, to the rest of the world. This integration into global supply chains had driven the commodity price boom that prevailed up to the recent economic and financial crisis, thus generating substantial gains for commodity-exporting countries, including most African and LAC countries. The same holds true for exporters of capital-intensive goods. In contrast, countries that export labour-intensive goods were confronted with stiff competition from China. The pick up in commodity prices during the last quarter of 2009 was in part instigated by the country's rising domestic demand.

In addition to attracting FDI from developed countries, it has increasingly become a major provider of FDI to some parts of the world, including Africa. Its ODA to other developing countries is also increasing, although starting from a low base.

The effects of its integration into the global economy have been far-reaching, shaping monetary and fiscal policies in developed countries, particularly the USA, and the constellation of global imbalances. Continued low labour costs have helped tame imported prices and domestic prices in developed countries, therefore allowing central banks in these countries to maintain low interest rates. Also, the current account surplus and commitment to maintain a relatively stable parity between the Renminbi and the Dollar have resulted in the build-up of impressive foreign reserves, predominantly held in the form of dollar-dominated assets. This has also enabled the USA to finance its twin deficits cheaply. One of the consequences of this development was the widening of global imbalances.

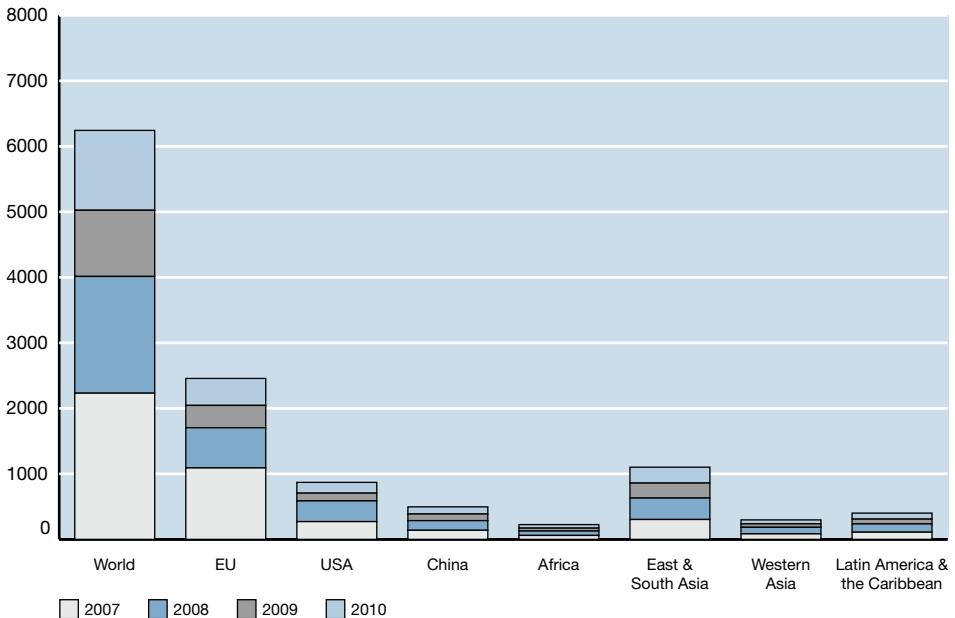
There is a consensus in policy research circles that smoothly unwinding these balances requires that China re-balance its growth towards domestic demand, while current account-deficit countries shift growth towards exports. This was outlined in the framework for "strong, sustainable and balanced growth", adopted by the G-20. In this emerging global governance structure, China has a stronger voice and is also emerging as a key player in other international forums and negotiations.

Despite its growing economic prominence, output expansion in this country still has less worldwide impact than that of the USA because of, among other things, relatively under-developed financial markets and a lower share of consumer spending in total GDP. However, global economic recovery is increasingly dependent on the pace of economic activity in China and other emerging economies.

**Source:** Eichengreen et al (2005); Wang, Jian-Ye (2007) and UN-DESA (2010).

**Figure 1.9**

*FDI inflows by region and for selected economies (\$US billion), 2007-2010.*



**Source:** UNECA computation based on EIU online database, December, 2009. Data for 2009 are estimates and for 2010 are forecasts.

ODA has been an important source of financing for many developing countries and since the Monterrey Conference of 2002, Africa has seen an increase in development assistance, peaking at \$24.5 billion in 2007 (OECD, 2009). Of that total amount, 53 per cent went to 9 countries, namely Egypt, Morocco, Tanzania, Ethiopia, the Sudan, Nigeria, Cameroon, Mozambique, Uganda, Kenya and the DRC (UNECA, 2009). The world economic recession has dealt a hard blow to ODA inflows to Africa, dampening the prospects for real effects.

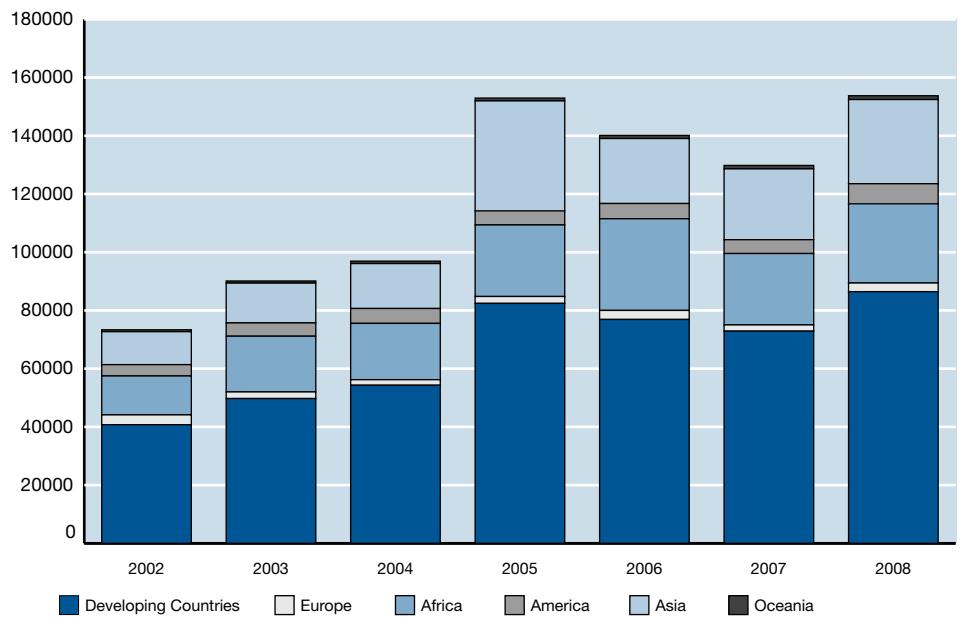
In 2008, ODA to Africa grew by 11 per cent compared to 2007 (figure 1.10). However, ODA inflows to Africa in 2010 are expected to fall due to tighter budget conditions in many donor countries, collapse of major financial institutions in the advanced countries, severity of the credit crunch, declining surpluses in oil-exporting countries, and the drastic fall in the values of sovereign funds. The expected decline in the flow of ODA also dampens prospects for achieving the MDGs in poor countries in Africa and in other developing regions.

There is some thought that ODA is pro-cyclical, and will increase if donor countries continue to experience the fruits of the economic recovery. It might take some time before ODA recipients begin to feel the pinch, particularly those countries that have become increasingly ODA-dependent.

*Tighter budget conditions in rich countries may reduce ODA flows to Africa*

**“** High global unemployment rates and working poverty in 2009 **”**

**Figure 1.10**  
Official development assistance (current \$US million) 2002-2008



Source: OECD online database, December 2009.

## 1.8 Global job crisis and increased working poverty

The global financial and economic crises have resulted in high unemployment and increased working poverty around the world in 2009. While unemployment is projected to decline slowly along with the economic recovery expected in 2010, there are likely to be considerable variations across regions and countries. Significant differences in job losses and job gains are also expected to persist across sectors and groups within countries, with the impact of unemployment and working poverty markedly higher among women and youth.

Although changes in global and regional unemployment are difficult to estimate, recent estimates show that 2009 represents the worst global performance in terms of employment creation since the Great Depression of the 1930s. Global unemployment rose from 5.7 per cent in 2007 to 5.9 per cent in 2008 but jumped to an estimated 6.5 per cent in 2009 according to the International Labour Organization (ILO) best case scenario and to 7.4 per cent according to the worst case scenario

(table 1.3).<sup>3</sup> Conversely, global employment growth declined from an annual average of 1.8 per cent between 2000 and 2007 to 1.4 per cent in 2008 and between 1.0-1.1 per cent in 2009 (ILO, 2009). These estimates suggest that the large-scale job losses that began in the closing months of 2008, intensified during 2009.

**Table 1.3**  
*Global employment crises and working poverty*

Region	Unemployment rates (%)				Vulnerable employment rates (%)				Working poverty rates* (%)			
	2007	2008	2009 Scenarios		2007	2008	2009 Scenarios		2007	2009	Scenarios	
			(a)	(b)			(a)	b)			(a)	(b)
World	5.7	5.9	6.5	7.4	50.4	49.4	48.9	52.8	21	20.1	28.2	
Developed Economies and European Union	5.7	6.1	7.7	9	10.1	10.1	10.2	11.4				
Central and South Eastern Europe (non-EU) and CIS	8.4	9	10.8	12.1	20.4	19.1	16.9	25.3	4.6	4.4	6.2	
East Asia	3.9	4.3	4.7	5.8	56	53.4	51.8	56.6	10.5	7.6	14.8	
South-East Asia and the Pacific	5.4	5.4	5.4	6.2	62.1	61.1	59.9	64.4	20.9	19.2	20.8	
South Asia	5	5	5	5.6	78	77.1	76.2	78.8	46.6	45.1	61.1	
Latin America and the Caribbean	7.1	7.2	8.1	8.4	31	31.2	31.6	34.5	6.8	6.8	9.5	
Middle East	9.5	9	8.8	11	33.4	32.8	32.6	39.3	8.9	8.5	22.7	
North Africa	10.6	10	9.8	11.1	37.6	36.8	36.4	42.4	11.2	11	21.8	
Sub-Saharan Africa	7.7	7.6	8	8.2	73.4	72.9	73.2	77.8	58.9	58.4	67.9	

**Source:** International Labour Organization, May 2009.

**Note:** \* Based on \$US 1.25 per day; (a) best-case scenario; (b) worst-case scenario.

To improve or sustain living standards, the employment growth rate should be at least commensurate with population growth. Over 2000-2007, world population growth rates averaged 1.8 per cent, approximately the same rate as employment growth in the same period. In the developed economies and in European Union, net employment growth is estimated to fall by between 1.5 and 3.3 per cent in 2009. For Central and South Eastern Europe (non-EU) countries, employment growth has been negative, with a growth rate between -0.9 to -2.2 per cent. In both East Asia and Latin America and Caribbean, there is labour destruction rather than labour creation, with respective employment growth rates estimated between -0.7 and -0.6 per cent in 2009.

3 Three scenarios were constructed by ILO in January 2009 on how the crisis might affect global and regional unemployment. The best case scenario was generated using the historical relationship between economic growth and unemployment at the country level, while the worst case scenario was generated by taking the worst observed year-to-year increase in each country's unemployment rate (see ILO 2009 for details).



*Proactive  
employment  
programmes should  
be at the heart of  
growth strategies*

In Africa, unemployment remains high at around 7.6 per cent in SSA and 10 per cent in North Africa in 2008. As a result of the global economic crisis, unemployment was estimated to rise in 2009 to an average of 8.2 per cent in SSA and to 10.6 per cent in North Africa. Estimated employment growth rate in 2009 ranged between 1.2 and 1.8 per cent for North Africa and between 2.4 and -1.1 per cent for SSA.

Both vulnerable employment and working poverty rates have also increased. Globally, the economic downturn halted the decline in vulnerable employment and working poverty rates experienced in the previous few years. In Africa and in other developing regions, both were estimated to have risen significantly in 2009 due to falling wages and benefits as well as deteriorating employment conditions and uncertainties especially in the informal and rural sectors. The working poverty rate is estimated to have risen in SSA from 58.9 per cent in 2007 to 67.9 per cent in 2009. This indicates that more working people in SSA have seen their earnings declining in real terms and fall below the poverty line.

Due to lags in job creation, the global economic recovery that started in late 2009 is not expected to have an immediate effect on global employment. For example, according to OECD, unemployment in the Euro zone will reach 11 per cent in 2010 and remain around that until 2011. For Africa, employment growth is not expected to reach its pre-crisis levels before 2011. Slow and lagging employment creation accentuates the need for government to implement pro-active employment programmes as part of their economic stimulus and growth recovery strategies and to increase social spending to mitigate the impact of the crises, especially on vulnerable groups.

Africa is characterized historically by high unemployment rates, and by predominantly vulnerable employment, as most of the labour force is absorbed in the informal and rural sectors. It is therefore imperative that African countries re-orient their growth and development strategies to focus on creating decent jobs to reduce poverty as is extensively discussed in the thematic part of this report.

## 1.9 Conclusion

The global economy experienced a marked economic downturn and a recession that affected almost all countries around the world in 2009. Despite large declines in global trade and capital flows, the world avoided the worst-case scenarios projected by some analysts in early 2009 and a shared global recovery, though slow, is expected in 2010. Emerging economies, especially China and India, are expected to lead the economic recovery. Growth in China and other emerging economies is expected

to stimulate faster growth in Africa directly through increased demand for Africa's commodity exports and capital inflows into Africa as well as indirectly through its positive impact on global commodity prices.

Indeed, in line with the global recovery led by emerging economies, signs of economic recovery in Africa began to appear in the second half of 2009. However, almost all African countries are still far from the high pace of economic development they achieved during 2002-2007. The average growth of Africa in 2009 was far below the growth rate of its population. This decline in per-capita income will offset part of the hard-earned social and economic gains that have been made in reducing unemployment and poverty and will widen the large gaps that still separate most African countries from their MDG targets.

While most African countries have taken a number of actions to lessen the impact of the economic slowdown, its recovery will mainly depend on revival of the global economy. As global economy is recovering, African commodity exports and prices are projected to increase, boosting growth in 2010. However, as elaborated in chapter 2, Africa's medium- and long-term growth prospects depend mainly on its ability to reduce its high dependence on ODA and on primary exports that are often subject to significant fluctuations in commodity demand and prices. A re-think of growth strategies is necessary. An alternative growth strategy should be more sustainable and pro-poor. All this calls for increased mobilization of domestic resources that are more predictable as a source of development financing and that can also provide more policy space for African countries to implement effective growth and employment strategies.

*Global  
economic  
recovery likely  
to boost recovery  
in Africa*

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# 2

## Economic and Social Conditions in Africa in 2009 and Prospects for 2010

The impact of the economic and financial crisis on Africa became evident in 2009, with the unfolding of the second-round effects of the shock. These effects took the form of weakened demand and lower prices for exports of goods and services, decreased remittances and reduced private capital inflows to much of the continent. As a result, GDP expanded by a mere 1.6 per cent in 2009 compared to 4.9 per cent in 2008, breaking six consecutive years of economic growth of 5 per cent or more (figure 2.1). As economic activity weakened, so did employment in the majority of African countries. The sum of these developments is that the prospects of meeting the MDGs, including the goal of halving poverty by 2015 and achieving meaningful progress in social development, have become even more daunting.

As the second-round effects of the economic crisis took hold, fiscal and current account balances widened. However, inflationary pressures somewhat moderated, thanks to limited demand that was largely instigated by slow economic activity. The softening of food and oil prices and good agricultural harvests in some parts of North and West Africa also contributed to the decline in inflation rates.

Against this backdrop, monetary policies were accommodative in the majority of African countries, although the pace of easing varied across countries. Many central banks cut their interest rates and increased liquidity in an attempt to boost private sector credit and help cushion the effects of the global slowdown on economic activity. Similarly, some countries imparted a countercyclical stance to fiscal policies. Many African governments boosted or maintained public spending programmes in order to protect the poor and the hardest-hit segments of the population and sustain domestic demand in the face of sluggish economic growth.

African countries experienced a deterioration in economic and social conditions in 2009

## 2.1 Economic Performance in Africa in 2009

GDP growth rates declined in most African countries

### 2.1.1 Growth performance

#### 2.1.1.1 Significant deceleration in growth in 2009 and continued variations across the continent

Africa's GDP growth trended downwards in 2009. Disparities among countries persisted and even increased in some cases. In 2009, 29 countries grew by 3 per cent or less, 17 managed to record GDP growth rates in the range of 3 to 5 per cent and 2 (Ethiopia and Republic of the Congo) expanded by 7 per cent or more. This was a marked deterioration compared to the performance recorded over the past two years when the majority of countries witnessed GDP growth of more than 3 per cent (table 2.1).

**Table 2.1**

*Distribution of growth performance in Africa, 2007-2009*

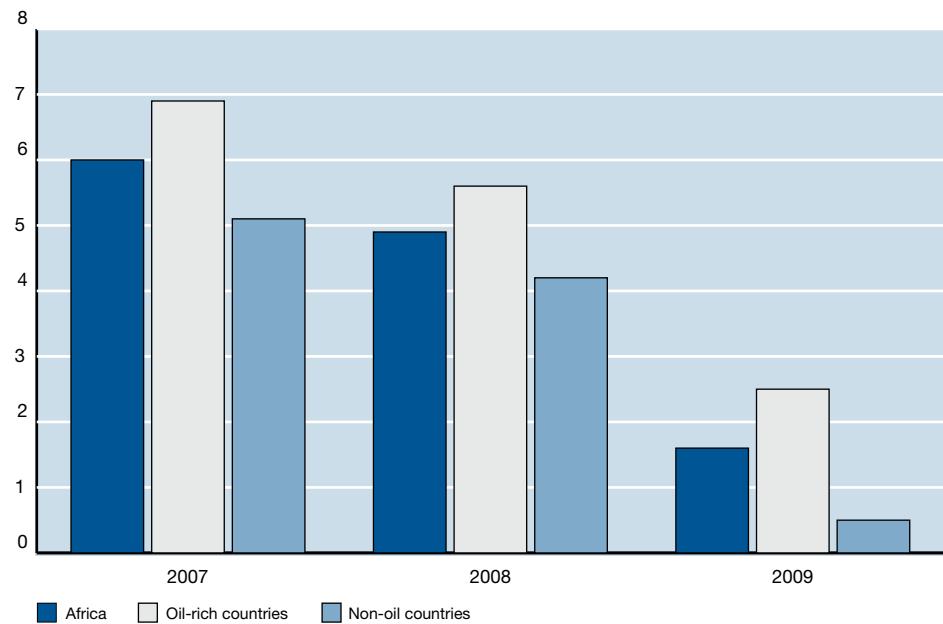
GDP growth rate	2007		2008		2009		
	Oil-exporting countries	Oil-importing countries	Oil-exporting countries	Oil-importing countries	Oil-exporting countries	Oil-importing countries	Oil-importing countries
Less than 3 per cent	4	7	3	13	8	21	
Between 3 per cent and 5 per cent	1	12	3	9	4	13	
Greater than 5 per cent and less than 7 per cent	3	11	4	11	0	5	
7 per cent or more	5	10	3	7	1	1	
Total	13	40	13	40	13	40	

*Source:* UNECA calculations based on UN-DESA, November 2009

GDP growth also varied between oil-exporting countries and oil-importing countries (figure 2.1). On average, oil-exporting countries grew more strongly than the oil-importing countries, thanks to the position of strength from which many of the oil-exporting countries weathered the global financial and economic crisis. The combination of prudent macroeconomic policy mix adopted during the oil-price boom allowed these countries to accumulate hefty external reserves and fiscal savings and to lower external debt, therefore providing room for accommodative monetary and fiscal policies (UNECA and AUC, 2009; IMF, 2009). Some oil-importing coun-

tries, six in total (Djibouti, Ethiopia, Malawi, Morocco, Rwanda and Uganda), also withstood the effects of the crisis relatively well, posting GDP growth of more than 5 per cent.

**Figure 2.1**  
*Growth in Africa, oil-exporting vs. oil-importing economies, 2007-2009*



“ Accumulated external reserves helped many African countries mitigate the impact of the crisis ”

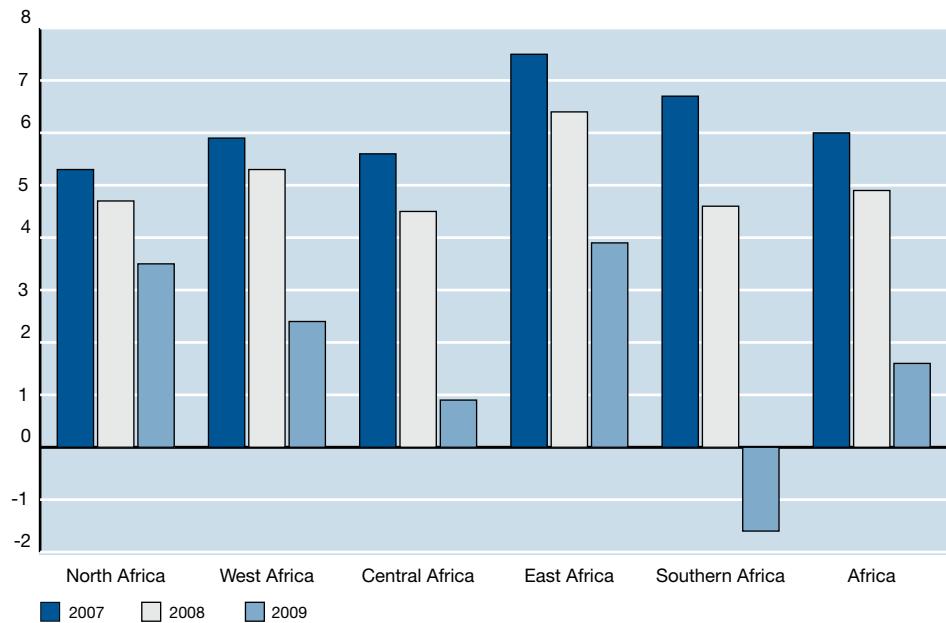
*Source:* UNECA calculations based on UN-DESA, November 2009.

### **2.1.1.2. Growth performance across and within regions**

The variations in economic growth were more perceptible when comparing regions or countries within regions. East Africa was the best-performing region (3.9 per cent), while Southern Africa posted the worst growth performance of all the five regions (-1.6 per cent) (see figure 2.2).

**“**  
*East Africa  
 remained the best  
 performing region  
 in 2009*  
**”**

**Figure 2.2**  
*Regional growth performance 2007-2009, in percentage*



*Source:* UNECA calculations based on UN-DESA, November 2009.

### *Central Africa*

Against the background of the global recession, economic activity slowed down considerably in Central Africa, with GDP growth dropping from 4.5 per cent in 2008 to 0.9 per cent in 2009. GDP contracted in Equatorial Guinea and Gabon owing to lower oil volumes and prices, resulting in reduced government earnings and constrained government spending. Similar developments also contributed to the severe deceleration of economic growth in Angola, which fell from the two-digit levels sustained over the last five years up to 2008, to only 0.2 per cent in 2009. Also, the pace at which the Cameroonian economy grew in the recent past slowed, as oil prices and production weakened and timber and industrial outputs faltered.

Other countries in Central Africa experienced moderate growth acceleration. The economies of Chad and the Central African Republic (CAR) started to recover slowly, although from a low base. Economic growth reached 1.6 per cent in Chad, helped by government infrastructure projects, while the GDP of CAR rose modestly to 2.4 per cent in 2009. The rise was supported by increased donor funding and rising investment in the mining sector. The Republic of the Congo was the only country where growth not only accelerated but also exceeded 7 per cent in 2009, bolstered by rising oil production.

## *East Africa*

East Africa weathered the effects of the global financial crisis relatively well. GDP growth, while declining, remained relatively robust, posting 3.9 per cent in 2009 compared to the hefty 6.4 per cent achieved in 2008. Ethiopia continued to be the fastest-growing economy in the region, with its GDP rising by 7.5 per cent in 2009 due to the strong performance of the non-agricultural sector, particularly services and robust government spending. GDP growth reached 5 per cent or more in Djibouti, Rwanda and Uganda. Such robust growth was sustained by continued strong investment associated with infrastructure development in Djibouti and solid performance in the industrial and services sectors in Uganda and Rwanda. Growth also softened in Burundi, declining from 4.5 per cent in 2008 to 3.2 per cent in 2009, given the modest performance of the manufacturing sector driven in part by power outages.

Elsewhere in the region, economic activity moderated considerably. In the Democratic Republic of the Congo (DRC), decreased mining export earnings and the related spillovers hampered output growth, with GDP expanding by 2.7 per cent in 2009, down from the 6.2 per cent witnessed in 2008. Weak agricultural output dampened Eritrea's GDP growth, which stood at 0.3 per cent in 2009. The prospects for the Kenyan economy, rebounding in the aftermath of the post-election violence, were nipped in the bud by the effects of the global slowdown. Kenya's GDP recovered only haltingly, growing by 2.5 per cent. GDP contracted by 0.4 per cent in Madagascar due to political instability and civil unrest. Despite progress in unwinding the unsustainable macroeconomic imbalances that had constrained growth in Seychelles, economic activity continued to contract in 2009, with GDP shrinking by 8.7 per cent owing to the poor performance of the services sector (see box 1).

## *North Africa*

The region withstood the impact of the crisis relatively well compared to many parts of the continent. Although economic growth declined in all North African countries, the pace at which this occurred remained modest by continental and international standards. The region's GDP grew by 3.5 per cent in 2009, down from the 4.1 per cent recorded in 2008. This performance largely reflects the remarkable resilience of the Egyptian and Moroccan economies, which expanded by 4.7 per cent and 5.3 per cent, respectively. In both countries, weak external demand was largely offset by strong domestic demand, which was aided by well-targeted countercyclical fiscal measures and loose monetary conditions. From the supply side, exceptionally high agricultural output sustained growth in Morocco whereas strong activity in construction and telecommunications drove economic expansion in Egypt.

*“ Countercyclical fiscal measures helped boost domestic demand in North Africa ”*

**The impact of  
the economic  
crisis on African  
agriculture has been  
relatively limited**

Other North African countries witnessed modest GDP growth. The Libyan Arab Jamahiriya, Mauritania, Sudan and Tunisia grew by 3 per cent or less, for a variety of reasons. On the one hand, growth tapered off to 1.8 per cent in the Libyan Arab Jamahiriya, and to 2.1 per cent in Algeria, owing in part to weak oil output. On the other hand, a significant drop in manufacturing output and tourism activity in Tunisia and the reduction of iron ore production in Mauritania, all largely instigated by weak global demand, acted as drags to GDP growth in these countries. As a result, GDP rose by 2.3 per cent and 3 per cent in Mauritania and Tunisia, respectively. Sudan's economy grew by 3.5 per cent in 2009, down from the 7.6 per cent in 2008, owing to the decline in FDI flows and weak activity in the construction sector.

### **Box 2.1**

#### ***The crisis seriously affected sectoral performance and employment***

The crisis has affected some of the key sectors that have driven growth in the past decade, such as tourism and mining, resulting in decreased production and layoff of workers (ILO 2009).

To date, the impact of the economic crisis on agriculture has been relatively limited. However, the impending effects on the real economy are already visible through lowered demand for Africa's exports, falling commodity prices, lack of credit and decreasing investment in the sector\*. Low investment in agriculture has resulted in low productivity and unsustainable land expansion (UNECA and AUC, 2009).

In the industrial sector, mining companies were reported to have scaled back production and laid off workers due to decline in demand. In DRC, the majority of foreign mining companies have been forced to scale back, postpone or abandon their investment plans. Affected mining firms have taken various actions, including suspension of operations (copper and cobalt) and withdrawal of exploration agreements (diamond). Similar difficulties were observed in other countries such as Botswana, South Africa and Zambia. The slowdown led to employment losses. For example, by December 2008, the DRC Ministry of Mines reported that more than 200,000 jobs had been lost in the mining sector. A further 200,000 lost their jobs in the early months of 2009.

In the manufacturing sector, factories have been running at lower capacity and employment has been severely threatened. In Uganda, the Manufacturers Associations (UMA) reported that 15 factories closed in 2008 due to the high cost of doing business\*\*. Most of these firms were in fish, leather processing, grain and tobacco dealing. Lesotho also experienced a decline in clothing and textile exports after recovering from the ending of the Multi-fibre Agreement ((MFA) in 2005).

Tourism has suffered substantially from the crisis as well, with substantial declines in tourism arrivals and receipts, hotel bookings, and air travel. The decline in tourism activity will reverse the recent gains by this service sector which is becoming an important driver of growth. This calls for efforts toward more diversification within the service sector as well as in the wider economy.

\* AfDB (2009). *Impact of the Financial Crisis on African Economies: Interim Assessment*. Editorial Committee included Leonce Ndikumana, Abdul Kamara, Audrey Chouchane and Albert Mafusire. December 2009.

\*\* *Uganda Business Development Profile*. February 2009.

Despite the general decline in GDP seen, some dynamism could be discerned in some North African countries, particularly in the oil-dependant ones. A major example has been the vitality of the non-hydrocarbon sector, which consistently expanded at robust rates in recent years due in part to bold public investment programmes.

### **Southern Africa**

Southern Africa was the region hardest hit by the global economic and financial crisis. Its GDP contracted by 1.6 per cent in 2009. The economy of South Africa, by far the largest in the region, shrunk by 2.2 per cent as the direct and indirect spillover effects of the crisis unfolded. These effects resulted in weakening of private demand. Later, reduced demand for South African exports, both manufacturing goods and commodities, depressed export earnings, thus depriving the country of another growth engine, external demand.

Because of the intensive trade and financial linkages between South Africa and neighbouring countries, particularly those belonging to the Southern African Customs Union (SACU), the slowdown in South Africa had regional dimensions. GDP decreased in Lesotho and Namibia and grew at a very negligible rate in Swaziland, in part due to reduced exports to and financial inflows from South Africa. Significant decline in mining and textile outputs in Lesotho and severe contraction of the mining sector in Namibia held back economic growth, which shrunk by 1 per cent and 0.7 per cent, respectively. In Swaziland, GDP grew by a mere 0.4 per cent, due to a contraction in manufacturing and mining. GDP in Mauritius slid from 5.7 per cent in 2008 to 2.1 per cent in 2009, reflecting reduced export earnings, tourism receipts and FDI.

The deceleration was especially evident in Botswana, where GDP slumped by 10.3 per cent, the largest contraction of economic activity in Africa in 2009, due to a severe decline in the production and prices of diamonds. Botswana's decelerated growth illustrates well the consequence of over-dependence on a narrow range of exports as international conditions deteriorate.

The economic situation, however, was not uniformly bleak across the region. After a prolonged period of severe decline, the economy of Zimbabwe finally showed signs of incipient recovery. GDP expanded by 3.7 per cent, the strongest rate in more than a decade, up from a contraction of 12.6 per cent in 2008. This economic recovery was underpinned by improvement in economic policies and by credit expansion, which was aided by capital inflows and post-hyperinflation re-monetization. The economy of Mozambique continued to show some strength, rising by 4.3 per cent, a rate that fell short of the average of 8 per cent recorded over the past seven recent years.

*The contraction  
in South Africa  
strongly affected  
economic  
performance  
in Southern Africa*

**Growth in  
West Africa varied  
significantly across  
countries**

### *West Africa*

Growth was uniformly tepid in West Africa in 2009, ranging from 0 per cent in Guinea, the worst-performing economy in the region, to 4.5 per cent in Ghana, the fastest-growing West African country. The majority of countries lie in-between, expanding by about 3 per cent. Ghana's GDP growth softened to 4.5 per cent in 2009, down from the impressive 6-7 per cent it has averaged in recent years. Growth was supported by robust gold export earnings, thanks to buoyant international prices for gold, and by increased agricultural and industrial outputs. At the other end of the spectrum, Guinea experienced GDP stagnation in 2009, as the mining and construction sectors contracted owing mainly to weaker bauxite export receipts and the drying up of aid and private inflows in the context of increased political instability.

Elsewhere, economic growth remained positive, albeit lacklustre. Nigeria, the largest economy in the region, suffered from the fallout of the global financial crisis more than the other West African economies. Growth slowed down in 2009, due to weak public demand in the face of declining government revenue and tightened monetary conditions that resulted in significant reduction in credit to the private sector. However, these effects were somewhat attenuated by the continued impressive dynamism of the non-oil sector, particularly agriculture and telecommunications. The slowdown in Nigeria's GDP growth seems to have had spillover effects beyond its borders, particularly on Benin and to a lesser extent, Niger, all relying on trade flows with Nigeria.

Côte d'Ivoire and Togo were the only countries where economic growth picked up, although moderately. A broad-based economic recovery, albeit timid, was observed in Côte d'Ivoire in 2009. GDP rose by 3.7 per cent, the highest rate in more than a decade, sustained by high agricultural, hydrocarbons and mining production as well as by an incipient recovery in the services sector. The economic rebound benefited from improvement in the political and security situation, following the signing of the Ouagadougou Accord by all major parties involved in the Ivorian crisis. Growth also resumed in Togo, accelerating from 1.1 per cent in 2008 to 2.4 per cent in 2009. The economic recovery in Togo was rather muted because of weak export earnings.

#### **2.1.2 Inflation declined in much of the continent**

Inflation rates declined in most African countries, due to a confluence of factors. These factors included the decline in world food and energy prices, good agricultural harvests in some countries, lower demand pressures in the face of weakening economic activity and extension of government subsidies on basic food products in a number of countries in the aftermath of the crisis. Yet, the level of inflation rates

and the rates at which they eased continued to vary across countries and groups of countries.

Inflation tended to be lower in oil-exporting countries, where it stood at 7.3 per cent, compared to 9.1 per cent in oil-importing countries. These differences owed much to exchange rate developments, which were largely predetermined by the exchange rate regimes in place as well as by the volume of international reserves at the disposal of countries when the crisis erupted. With significant buffers in the form of sizeable foreign exchange reserves accumulated in recent years, many oil-exporting countries were better placed than the oil-importing countries to intervene in their foreign exchange markets, thus limiting exchange rate depreciation and containing imported inflation.

The most notable decline in prices was observed in Zimbabwe, where the long episodes of hyperinflation ended. Inflation dropped dramatically to 3 per cent in 2009. Growing money demand, driven by post-hyperinflation re-monetization, offset potential inflation pressures associated with credit expansion. Starting from relatively low levels, inflation rates fell considerably in a large number of countries belonging to the two *Communauté Financière Africaine* (CFA) Franc monetary unions, under-shooting their official targets of 3 per cent.

The continued appreciation of the CFA, which has a fixed parity with the Euro, contributed to this. Similarly, South Africa's inflation rate declined, aided by lacklustre economic activity and lower international prices for oil and food, but remained above the ceiling of the 3-6 per cent target band. Further, the pace of price moderation somewhat slowed because of significant wage demands and rising inflation expectations. Inflation eased considerably in Nigeria, as monetary conditions tightened.

In contrast, inflation was on the rise in some countries, including Angola, DRC, Eritrea, Ghana, Sierra Leone, Uganda and Zambia. Sharp increases in prices were driven largely by lower agricultural output in Eritrea, shortages caused by delays in importing consumer goods in Angola, currency depreciation in Zambia and Uganda, and excess liquidity in DRC and Sierra Leone. Despite persistently high headline inflation, core inflation, which excludes food and energy prices, moderated in a number of countries, including Algeria and Uganda. This development denotes the growing credibility of central banks in their attempts to anchor inflation expectations.

### **2.1.3 Monetary policies were expansionary**

As economic activity tapered off and inflationary pressures receded, the majority of central banks on the continent eased monetary conditions in order to support eco-

**A few African countries tightened their monetary policies in 2009**

nomic recovery. Monetary policies were therefore countercyclical in a large number of countries.

The two central banks of the 15 CFA Franc zone countries embarked on loose monetary policies. Key policy interest rates were lowered and reserve requirements were reduced in an attempt to boost domestic credit, thus mitigating the impact of the global downturn on the CFA zone's economic growth. Guided by similar objectives, central banks in Egypt and South Africa cut policy rates several times. In Southern African countries that have their currencies fully or partly pegged to South Africa's Rand, monetary policy followed in the footsteps of South Africa's Reserve Bank, the institutional anchor to their currencies, by significantly reducing interest rates.

Monetary policy was tightened in Nigeria in early 2009, signalling concerns over rising inflationary pressures. As a result, monetary and credit aggregates expanded at a lower pace. This policy stance was reversed later in the year, when the monetary authorities decided to lower policy rates. The bailing out of five banks under stress, which together accounted for a third of total bank assets, also contributed to the reversing course. Similar measures, including financial support provided by Tanzania's central bank to commercial banks facing balance-sheet problems, led to increased liquidity in the country. Elsewhere, particularly in Ethiopia and DRC, limited coordination between the treasury and the central bank hampered liquidity management, thus leading to excess liquidity.

#### **2.1.4 Fiscal balances widened, reflecting in part accommodative fiscal policies**

In the wake of the deteriorated international environment, a larger number of countries recorded fiscal deficits, while fewer posted surpluses. On average, these fiscal balance developments reflected the combination of increased or constant public spending and declining government revenue, against a backdrop of falling external assistance and tightening global credit conditions. In a way, these changes mirrored fiscal expansions aimed at supporting economic activity and at cushioning the social impact of the crisis.

Fiscal stimulus packages were delivered more through spending than through revenue-based measures, except in a few middle-income countries such as Namibia where personal tax-relief measures constituted a major component of the fiscal impulse envisioned in the 2009/2010 budget.

South Africa continued to ease fiscal policy, with the adoption of a series of measures to boost infrastructure investment and expand social safety-net systems in the 2009/2010 budget. This package of additional expenditure aimed to respond to

both short- and long-term concerns, namely, to sustain domestic demand in the face of weakened economic activity and to raise the country's long-term growth potential.

Similarly, discretionary fiscal impulses targeted public investment in Algeria, Cape Verde, Egypt and Rwanda, as these countries attempted to relieve infrastructure bottlenecks that were limiting supply response and the ability of these economies to sustain strong growth rates. Under its 2009/2010 budget, Ethiopia also planned to ease the tight limits on public spending that were set in the previous year. An additional fiscal stimulus was delivered through the 2009 supplementary budgets in Burkina Faso and Tunisia.

Elsewhere, upward adjustments in public service wages in Ghana and Swaziland accounted for a significant share of the increases in government spending or explained stable government expenditures despite cuts in other recurrent expenditures. Strong government spending also illustrated increases in security and humanitarian spending in some war-torn countries such as DRC.

While public spending remained at relatively high levels, government revenue decreased, reflecting shortfalls in customs collection due to weakened imports and lower tax collection, in the context of the tapering off in economic activity. Thus, tax revenues were well below the targets set by many countries and fiscal deficits increased.

With fiscal deficits widening and external financing, both concessional and non-concessional, drying up, many governments increasingly reverted to domestic financing. This was made possible because of the cautious fiscal policies implemented when the external environment was favourable to many African countries (UNECA and AUC, 2009; IMF, 2009). Low public debt ratios coupled with bulky government savings implied that countries had the necessary space to ease fiscal policies. Rising fiscal deficits were financed in part through withdrawals of government deposits from central banks. Some reverted to central bank financing, especially when there were delays in the disbursement of donor assistance.

Not all countries had enough fiscal space or used their space for manoeuvring that was at their disposal, for a countercyclical response to the crisis. In particular, countries with fragile political and security situations subscribed to balanced-cash budgets that strictly limited spending within available domestic and external resources and had little flexibility to respond to the slowdown. While this mechanism helped these countries achieve macroeconomic stability, it nonetheless limited the necessary fiscal space required to sustain and address domestic demand in the face of weaker economic growth and the pressing social needs characteristic to post-conflict situations. Also, countries such as Botswana with strong initial fiscal positions opted

*Fiscal stimulus  
and declining  
government revenue  
put pressures on  
fiscal balances*

**“**  
Real exchange  
rate appreciated  
in most African  
countries  
**”**

for severe budget cuts in order to circumscribe the magnitude of the fiscal balance deterioration.

### **2.1.5 Real effective exchange rate moved in various directions**

Real effective exchange rates, which help gauge a country's external price competitiveness, moved in various directions. The majority of African countries witnessed real appreciation. Real effective exchange rate appreciated mostly in countries with fixed exchange rate regimes and countries that posted relatively high inflation rates. With their common currency pegged to the Euro, which gained value vis-à-vis other major currencies, most of the 15 CFA Franc zone countries had their exchange rate appreciated in real terms. Similarly, real exchange rate appreciated in South Africa because of persistently high inflation compared to that of trading partners. Because of their strong trade links and existing currency arrangements, currency pegs with South Africa, Botswana and Namibia also witnessed real appreciation driven in part by imported inflation from their institutional anchor. Other countries with fixed exchange rate regimes that experienced real appreciation were the Libyan Arab Jamahiriya and Cape Verde, mainly due to nominal exchange rate appreciation.

Countries, whose real effective exchange rate depreciated, for instance, Sudan, were mostly those where nominal exchange rates were allowed to depreciate in order to limit the effects of the global economic crisis on foreign exchange reserves holdings and/or to boost export competitiveness. These countries were predominantly countries that had floating regimes or managed float regimes.

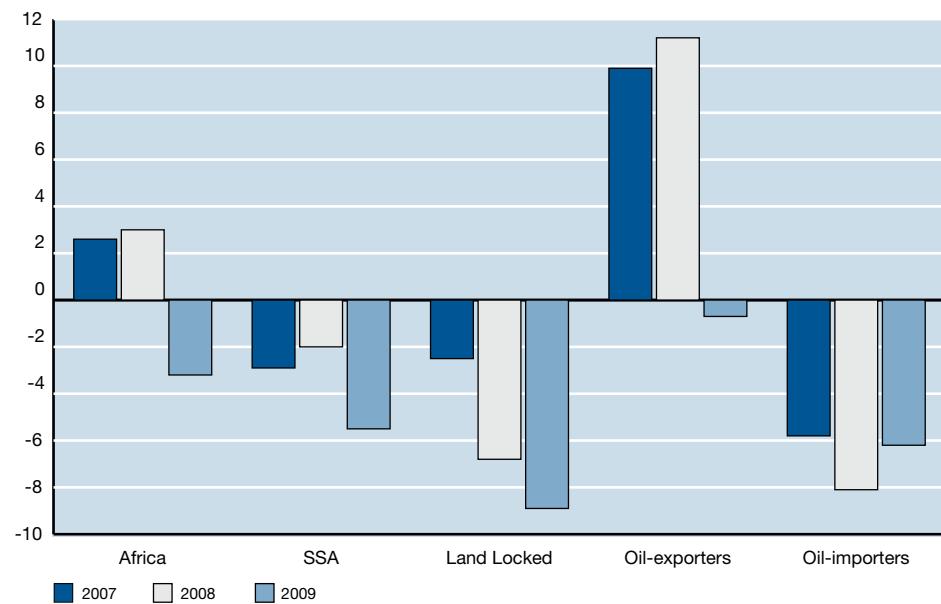
### **2.1.6 Current account balances worsened**

Africa's external balance posted a current account deficit of 3.2 per cent in 2009, partly because export receipts declined more rapidly than imports. This development represents a major turnaround from the record of current account surpluses witnessed by the continent in recent years.

Yet, this overall picture hides differences among structurally determined groups of countries and among individual countries as well (figure 2.4). Landlocked African countries ran much higher current account deficit (8.9 per cent) than other countries, largely due to their much larger services account deficits, which reflected the high trade costs they face and the difficulties in competing on the world stage. Also, oil-exporting countries recorded lower deficits (0.7 per cent) than oil-importing countries (6.2 per cent).

**Figure 2.3**

Current account balance in Africa by category, 2007-2009 (% GDP)



**Source:** UNECA calculations based on EIU, November 2009.

**Note:** Excluding DRC, Egypt, Guinea, Guinea-Bissau and Somalia.

Current account balances worsened in the majority of African countries. Oil-exporting countries illustrated these changes very well. The decline in oil prices translated into decreased export earnings. Imports weakened, albeit at a more modest pace, thanks to the decline in oil and food prices and decreased demand for intermediate and capital goods. As a result, current account balances deteriorated, with surpluses dwindling in Algeria, Angola, Gabon, Equatorial Guinea, Libyan Arab Jamahiriya and Sudan or evaporating completely in Republic of the Congo and Nigeria. Similar dynamics occurred in oil-importing, mineral-rich Botswana, where the steep contraction in diamond and other mineral exports and weaker services exports moved the current account balance from surplus to a deficit of almost 10 per cent of GDP. Current account balances further deteriorated in a number of oil-importing countries with chronic deficits, including Ethiopia, Niger and Zimbabwe. This is due in most cases to decreased export earnings, lower remittance inflows and weaker tourism receipts, despite some easing in the import bill caused by lower oil and food prices.

Although Africa experienced an overall current account deficit, not all countries recorded deterioration in their current account balances. Current account deficits eased in a number of countries because of a varied set of factors. Imports contracted more strongly than exports in the Gambia, Kenya, Rwanda, South Africa and Togo, leading to improvement in the current account balances of these countries. The

“  
Current account  
balances worsened  
in the majority of  
African countries  
”

**“**  
*Current account deficits declined in countries where imports contracted more strongly than exports*  
**”**

resilience of remittances and tourism receipts caused a decline in the current account deficit in Tunisia, while stronger gold exports contributed to improvement of the external balances of countries such as Ghana, Mali and United Republic of Tanzania. The reductions in current account deficits sometimes reflected a real adjustment process, whereby limited access to external financing forced countries to freeze or postpone investment in infrastructure development and productive capacity building. CAR, Eritrea and Togo went through this adjustment.

There were countries where current account deficits hardly changed, in part because exports held up steadily. Exports withstood firmly in Uganda owing to stronger exports of food to neighbouring countries, which more than compensated for the decline in traditional exports such as coffee. Madagascar's exports declined only a little, since exports of limonite recently commenced.

As the global economy slid into a severe recession, financial flows to Africa slowed down considerably (see chapter 3). With financial flows drying up and in the face of growing depreciation pressures on exchange rates, the widening current account deficits were financed through significant drawing on foreign exchange reserves that were accumulated in the recent past. Despite this, reserve positions remained solid in many countries such as Egypt and Zambia, due in part to the Special Drawing Rights (SDRs) allocation from the IMF.

The global crisis has been presenting countries having limited or dwindling foreign reserves with a difficult set of challenges. Tighter external financing conditions force cuts in imports of the inputs needed for production and jeopardize provision of basic public services, thus lowering the long-term growth potential.

## 2.2 Recent trends in social development in Africa

Overall performance in meeting the MDG targets during the period preceding the financial and economic crises was rather mixed. On the one hand, Africa had made considerable progress in a number of social development areas, with remarkable gains in such areas as primary school enrolment, measles vaccination, use of insecticide-treated bed nets, reductions in HIV prevalence rates in some countries and improvements in some aspects of gender equality. On the other hand, very limited headway was made with poverty reduction, eradicating hunger, decreasing the maternal mortality rate (MMR) and addressing many disparities due to gender, income, and disability.

## **2.2.1 Population growth posed a number of socio-economic challenges**

Africa's population grew by 2.3 per cent from 987 million in 2008 to 1 billion in 2009 (UNFPA, 2009). The population of most African countries continues to be youthful, with children and youth aged 30 and under constituting over 70 per cent of the continent's total population (UNECA, UNFPA, and AUC, 2009). The proportion of older persons was estimated to constitute 5.2 per cent of the continent's population in 2007 and grew at an annual rate of 3.1 per cent between 2001 and 2015. High population rates and strong rural-urban migration have led to high urbanization rates in Africa. These developments pose a number of socio-economic challenges to countries, including increased pressure for housing, health, education and social protection services, and growing need for skills training and decent employment.

*The crisis led to an increased number of people living in extreme poverty in Africa*

## **2.2.2 Poverty, food insecurity and unemployment rising**

Data on income poverty in Africa are not complete, making close monitoring and tracking of progress on poverty eradication at the national and regional level a major challenge. This is further exacerbated by limited sex- and gender-disaggregated data. In 2005, the proportion of the population living in extreme poverty in Central, East, Southern and West Africa, using the new \$1.25 per day poverty line, was 51 per cent compared to 3 per cent in North Africa (United Nations, 2009). North Africa also witnessed an increase in the proportion of the population living in extreme poverty, rising from 3 per cent in 1990 to 4 per cent in 2005 (United Nations, 2009).

The global economic crisis is expected to increase the number of people living in extreme poverty in Africa due to the loss of income associated with loss of jobs and remittances and reduction in government investment in the social sector. Available data do not give much insight into the gendered nature of the incidence of poverty, but it is widely acknowledged that in Africa, poverty often has a female face and studies have revealed that female- and child-headed families are often the poorest in Africa and women and children are expected to fall deeper into poverty.

Meanwhile, unemployment rates in Central, East, Southern and West Africa declined only marginally, from 8.5 per cent in 2003 to 7.9 per cent in 2008 (ILO, 2009). This trend is expected to reverse in 2009, given the large number of jobs currently being lost in labour-intensive sectors such as textiles, construction and tourism, as well as in capital-intensive sectors such as mining. A similar situation is likely to hold in North Africa where a marked slowdown in tourism, construction and public works is expected to push up the unemployment rate. Vulnerable unemployment stood at 77.4 per cent of total employment in Africa in 2007 (see chapter 5). The burden of

**“**  
*Unemployment  
still high despite  
improvement in  
school attainment  
and skills*  
**”**

vulnerable employment continues to fall heavily on women and youth who remain mainly in the agricultural and informal sectors.

### **2.2.3 School attainment, particularly in primary school, improving, but unemployment and underemployment still high**

Recent evidence on Africa shows that unemployment and underemployment are common and very few job opportunities exist in the formal economy, especially among young people and women, as elaborated in chapter 5. Numerous reasons have been given for this employment situation, including inadequate economic growth and lack of growth in labour-absorbing sectors, public sector downsizing, the under-developed private sector, poor health (especially due to HIV/AIDS), increasing youth population, lack of education and/or inappropriate skills. Education in particular is important in addressing unemployment in Africa because it is the critical element of human capital development, effective economic and political participation, and quality health care.

It is widely acknowledged that education is essential for improving the productive capacities of countries through supporting technological progress, capital accumulation and structural change (UNCTAD, 2006). Improved productive capacities can drive economic growth. However, such growth must also result in improved social conditions for the poor through implementation of well-targeted employment creation and social protection policies. Thus, the education level of a population is both an input into the economic growth path and an outcome of economic growth, in that poor people are targeted for skills upgrading in order for them to participate in the modern economy (UNECA, 2001).

The average net primary school enrolment rate in Central, East, Southern and West Africa increased from 71 per cent in 2006 to 74 per cent in 2007. In North Africa, the net primary school enrolment rate increased from 91 per cent in 2006 to 96 per cent in 2007. The improvements in primary enrolment rates were driven largely by a combination of strong government commitment that has expanded primary education facilities and eliminated school fees, and appropriate support from the donor community (United Nations, 2008). If the current rates are sustained, many countries in Africa will be able to achieve gross enrolment of 100 per cent by 2015. However, the current economic crisis is likely to impact negatively on government and on the donor resources available for investing in primary education.

Although the primary enrolment rate has been improving, the primary completion rate is an area of concern, particularly among girls. The major reasons for dropping out of school include lack of resources to meet the costs, domestic care activities within households (particularly for girls), early marriages, child labour, teenage

pregnancies, poor quality of education and long distances to school. The quality of primary education is further eroded by lack of school facilities such as books, computers, sanitation and water. The supply of teachers is also a major constraint particularly as a result of HIV/AIDS.

The gross enrolment ratios in secondary and tertiary education in Central, East, Southern and West Africa increased, although more conspicuously in North Africa than in the rest of Africa. It is generally expected that the unemployment rate would decrease with the level of education; however, in Africa, this is not the case. The better educated experience higher rates of unemployment. This is reflected in the large number of graduates who queue for the few public sector jobs available. University and high school graduates also suffer from a skills mismatch.

#### **2.2.4 Women's representation in national parliaments remained low but progress was made in some countries**

About 12 countries have shown some improvement in women's representation in national parliament since 2007. These include Rwanda, Angola, Lesotho, Senegal, Cameroon, Djibouti, Swaziland, Gabon, Burkina Faso, Togo, Benin, and Kenya. The highest achievers of gender parity in seats held in national parliament in 2009 were the following: Rwanda (56.3 per cent), Angola (37.3 per cent), Mozambique (34.8 per cent), South Africa (33.0 per cent), Uganda (30.7 per cent), Burundi (30.5 per cent), the United Republic of Tanzania (30.4 per cent), Namibia (26.9 per cent), Lesotho (25 per cent), Seychelles (23.5 per cent), Tunisia (22.8 per cent), Mauritania (22.1 per cent), Eritrea (22 per cent), Senegal (22 per cent), Ethiopia (21.9 per cent).

Although women's participation as electors increased significantly, the representation of women in key positions and elected bodies remains far below parity. The number of women ministers remains low in most countries. Overall, Africa is still faced with the challenge of reaching the 50/50 gender parity target set by the AU in its Solemn Declaration on Gender Equality in Africa (UNECA, 2009).

Violence against women (VAW) remains a persisting problem in Africa. Occurrences of domestic violence, sexual abuse, trafficking in women and children and harmful traditional practices (HTPs) are common in the majority of countries. Although data on VAW are limited, the issue has increasingly received attention over the past decade. The International Conference on Population and Development (ICPD) regional review (UNECA, UNFPA and AUC, 2009) revealed that although different causes and patterns of violence existed across countries, countries agreed that VAW has been rooted in unequal power relations between women and men, exacerbated by customary norms and practices. Armed conflict was cited by CAR, Republic of

*Social and economic conditions of women still a concern in many countries*

the Congo and Sierra Leone as a major factor that aggravated the occurrence of sexual violence against women and girls.

### 2.2.5 Mixed progress in the area of health

*Life expectancy improved slowly but varied widely across countries*

The average life expectancy at birth for Africa was estimated to be 55 for men and 57 for women in 2009 (UNSD, 2009). However, this varied widely across countries with some countries such as Tunisia, Libyan Arab Jamahiriya, Algeria, Morocco and Mauritius having life expectancy at birth that was more than 70 years for both men and women. Other countries such as Angola, Zambia, Zimbabwe, Lesotho, and Swaziland had life expectancy at birth that was less than 46 years for both men and women. This was mainly because of the impact of AIDS mortality, which has been felt most severely in Southern Africa where the average life expectancy had risen to 61 years in the 1990-1995 period but subsequently declined to less than 50 years around 2005 due to the high mortality caused by AIDS. This pandemic has continued to affect women and girls disproportionately (UNAIDS, 2009).

As a result of extensive and targeted prevention programmes, the HIV prevalence rate has either stabilized or declined in most African countries due to the adoption of safer behaviour. The adult HIV prevalence rate in Central, East, Southern and West Africa declined from 5.8 per cent in 2001 to 5.2 per cent in 2008 (UNAIDS, 2009). However, in many African countries, there are positive signs of behaviour change that suggest stabilization of the epidemic, especially among young people aged 15-24 years. The HIV prevalence rate remains lowest in North Africa (less than 1 per cent) and highest in Southern Africa, where in 2008 it exceeded 10 per cent in nine countries.

The progress made on scaling up antiretroviral treatment (ART) is likely to be hampered by the economic crisis since most of those on treatment are supported by government or donor funding. Women, who form the majority of those living with HIV, will be negatively impacted. The food insecurity crisis has also made it difficult for people living with HIV to afford the nutritious food required during treatment, thus weakening their immune systems further.

Overall trends in tuberculosis incidence, prevalence and deaths have been rising in Central, East, Southern and West Africa in contrast to North Africa. In 2007, the tuberculosis prevalence rate in Central, East, Southern and West Africa was 421 per 100,000 people (excluding those infected with HIV), an increase from 333 per 100,000 people in 1990 (United Nations, 2009). In North Africa, the tuberculosis prevalence rate decreased from 65 per 100,000 people in 1990 to 44 per 100,000 people in 2007.

Malaria is still the leading cause of child mortality and of anaemia in pregnant women. Although data on malaria incidence and death rates are not comprehensive, the disease remains endemic in many parts of the continent with an average mortality rate of 104 per 100 000 of the population for the WHO Africa region<sup>1</sup> in 2006 (WHO, 2009). Malaria mortality is particularly endemic in West and Central Africa but has almost been eliminated in North Africa (e.g. in Egypt, Morocco and Algeria) and is not endemic in parts of Southern Africa and the highlands of Ethiopia and Kenya.

The continent has witnessed a decline in the infant and under-five mortality rates, although there is wide variation within countries, with higher mortality rates recorded for rural and poor families. The under-five mortality rate in Central, East, Southern and West Africa dropped from 160 per 1000 live births in 2006 to 145 per 1000 live births in 2007 (United Nations, 2009).

North Africa made remarkable progress in reducing under-five mortality from 83 per 1000 live births in 1990 to 35 per 1000 live births in 2007. The leading causes of the high infant and under-five mortality rates are preventable diseases such as malaria, pneumonia, diarrhoea, and malnutrition.

In contrast, MMRs remain unacceptably high on the rest of the continent. In 2005, the rate stood at 900 per 100 000 live births (down from 920 in 1990) in Central, East, Southern and West Africa. Progress in reducing maternal mortality in these four regions has been negligible, although there are significant disparities across countries arising from differences in income and other factors. They account for half of all the maternal deaths experienced worldwide annually. Some countries have very high MMRs in excess of 1000 per 100 000 live births, including Angola, Burundi, Chad, Malawi, Niger, Sierra Leone, Liberia, Guinea Bissau, Somalia, Nigeria, DRC and Rwanda (WHO, 2009). This is in contrast to Mauritius and Seychelles which, given their strong health infrastructure and management capacity, have reported very low MMRs (UNECA, UNFPA and AU, 2009). About 80 per cent of maternal deaths are preventable if women have access to essential maternity and basic health care services.

*“ Infant and under-five mortality rates declined but remain unacceptably high ”*

<sup>1</sup> All African countries except Djibouti, Egypt, Libyan Arab Jamahiriya, Morocco, Somalia, Sudan and Tunisia, which are grouped under the WHO Eastern Mediterranean Region. This average does not include three countries: Lesotho, Mauritius and Seychelles that had no data on malaria mortality.

## **2.2.6 Access to improved water sources and sanitation increasing but disparities persist**

**“ There is high unmet demand for public investment in water and sanitation ”**

Although many African countries continue to make progress in increasing the proportion of people using improved water sources and sanitation facilities, a large part of the population remains unserviced. In 2006, the proportion of people using an improved drinking water source stood at 60 per cent or more in over 24 countries (UNECA, AUC and AfDB 2009). There are also major disparities between urban and rural areas in respect of access to improved drinking water sources and sanitation facilities. Except in North Africa and some countries in Southern Africa, the rural population has limited access to such facilities.

Yet, the combination of safe drinking water and hygienic sanitation facilities is a precondition for improved well being and for success in the fight against poverty, hunger, child deaths and gender inequality. The greatest challenges to realizing the water and sanitation MDG targets in Africa include the low priority accorded to sanitation, high levels of poverty and income inequality, weak government policies and institutions, the incidence of natural disasters, high population growth, resource challenges, and a heavy debt burden. The prospects for achieving these MDG targets in Africa depend largely on resolving these challenges.

## **2.2.7 Social conditions of vulnerable and marginalized groups are worst**

Slow progress on social development is most pronounced for marginalized and vulnerable groups in African countries, including older persons, the youth, persons with disabilities, orphans and vulnerable children, internally displaced persons, refugees and indigenous people. The overall exclusion of these groups from society is reflected not only in their lower incomes and poorer outcomes in the labour market but also in terms of lower educational attainment rates, poor health status and under-representation in political processes and at policymaking levels.

Progress has been made in some countries in addressing the needs of vulnerable groups especially in the form of policies, laws, and targeted social protection measures. Overall, the main challenges in fostering the social inclusion of vulnerable groups include: lack of implementation of commitments and policies; inadequate financial resources to support spending on social programmes; technical capacity constraints; lack of relevant data to support policies; and wars and conflicts. The need for social inclusion of vulnerable and marginalized groups and for social protection systems has been magnified by the recent food and energy crises which have negatively impacted on the lives of such vulnerable groups as women, children, persons with disability and the elderly. The impact of the crisis underscores the need to

strengthen existing national social protection systems and to implement new ones to ensure that all the vulnerable groups are included in mainstream development.

## 2.3 Outlook for 2010 and downside risks

### 2.3.1 Economic recovery expected in 2010 but subject to risks

Looking ahead, Africa's GDP growth is expected to increase from 1.6 per cent in 2009 to 4.3 per cent in 2010. Given uncertain external and internal scenarios, UNECA estimates suggest that Africa's GDP growth might fluctuate between 3.6 per cent and 5 per cent<sup>2</sup> (figure 2.3). Although this points to some economic recovery, the pace of GDP expansion even in the best scenario, meaning 5 per cent, falls far short of the levels required to achieve the MDGs.

The expected economic rebound will be driven by both domestic and international factors. The recovery in the global economy is set to push up demand and prices of African exports of goods, in particular minerals and hydrocarbons, and services such as tourism, thus leading to stronger export earnings. In addition to increased exports, private flows, in particular FDI and portfolio investment, are likely to increase, although gradually, therefore maintaining the momentum that started in late 2009. This development is expected to revive major investments in infrastructure, mining and manufacturing that were put on hold when the financial crisis erupted. Also, as economic activity gains strength in developed countries, remittances by the African Diaspora are likely to rebound, thereby impacting positively on private consumption and investment in some African countries where these flows constitute an important source of development finance. These external factors are expected to reinforce more favourable domestic conditions.

A key driver of the incipient growth recovery, albeit fragile, will be the various fiscal and monetary stimulus packages adopted by many African governments. Loose fiscal policies reflected in national budgets and targeting infrastructure investments and social sectors are expected to boost domestic demand, which will also benefit from relatively low interest rate levels.

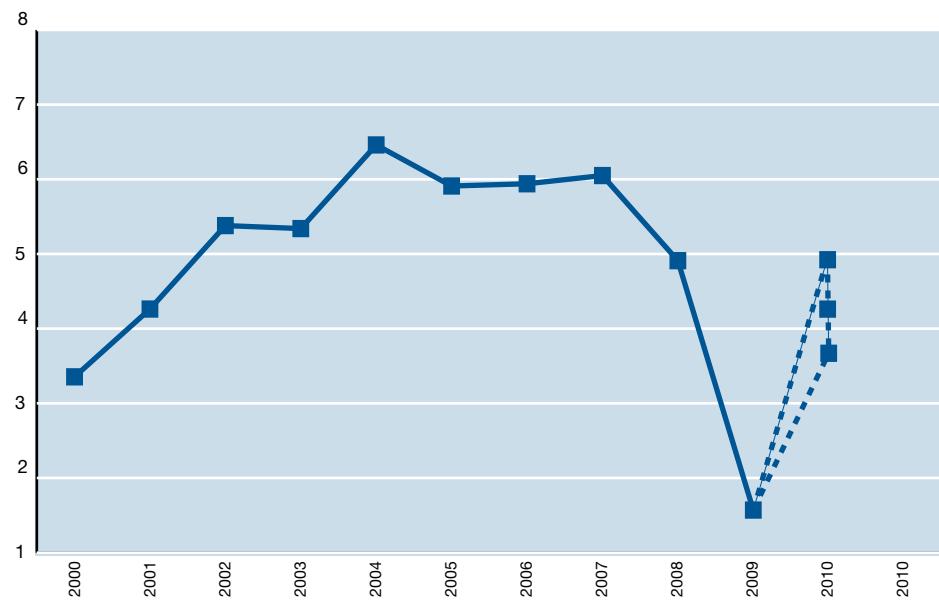
*Africa's growth  
is expected to fall  
far below the  
minimum level  
required to  
achieve the MDGs*

<sup>2</sup> GDP interval forecast is a series of values in which GDP was expected to fall, with some probability. A 95 per cent confidence interval is computed using the following formula:  $g_p \pm 1.96 \cdot \hat{\sigma}$ , where  $g_p$  is the predicted growth rate and  $\hat{\sigma}$ , the corrected standard deviation. The corrected standard deviation is computed on the basis of UN-DESA forecast errors. A bootstrap method was used in order to correct potential small-sample bias.

**“** East Africa is expected to continue to be the fastest growing region and Central Africa the least performing region in 2010 **”**

Consistent with previous patterns, both the pace of recovery and the growth levels attained by countries and regions will differ. East Africa continues to be the fastest-growing region (5.3 per cent), followed by West Africa (4.7 per cent), North Africa (4.1 per cent), Southern Africa (4.1 per cent) and Central Africa (3.8 per cent). However, the strongest recovery is expected to be observed in Southern Africa, driven largely by the broad-based economic rebound in South Africa. Expansion in the mining sector coupled with buoyant growth in the services sector, in particular tourism, on the back of the World Cup football tournament, is set to push South Africa's GDP growth to 3.1 per cent.

**Figure 2.4**  
*GDP interval forecast, 2010*



*Source:* UNECA estimates based on UN-DESA historical forecast errors.

*Note:* 95 per cent confidence interval.

A larger number of countries, 4 in total (Angola, Republic of the Congo, Ethiopia and Uganda) in 2010 compared to 2 (Republic of the Congo and Ethiopia) in 2009, are expected to grow by more than 7 per cent, the rate at which African countries should grow if they are to halve poverty by 2015. The economies of Republic of the Congo and Angola are projected to expand by 12.2 per cent and 9.3 per cent, respectively, owing to stronger oil production and robust growth of non-oil sectors, particularly in construction and agriculture, which were supported by large investments in public infrastructure. Agriculture-dominated Uganda and Ethiopia are also expected to post economic growth of 7 per cent or more, reflecting a broad-based

economic recovery, with services and industry increasingly becoming important growth engines in these countries.

Growth is projected to be severely constrained by a steep reduction in oil output in Equatorial Guinea, the fastest-growing economy in Africa over the last decade. Political uncertainty in Guinea and Madagascar, with its attendant consequences in terms of severe reduction of donor assistance and private flows, are expected to act as a drag to economic growth in these economies in 2010. Besides these two groups of countries, the majority of African countries are set to record GDP growth in the range of 3 to 7 per cent.

Inflation is expected to further ease in 2010, largely reflecting significant price moderation in countries that recorded two-digit inflation rates in recent years. Price increases are expected to recede in DRC, Ethiopia, Kenya, Ghana, Rwanda, Sao Tome and Principe, United Republic of Tanzania and Uganda, due to limited exchange-rate depreciation and/or the expected gradual tightening of monetary policy, the effects of which will more than offset the rising prices of food and energy.

However, a number of countries are expected to witness moderate acceleration in price increases. Rising government spending in oil-producing countries such as Angola, Republic of the Congo and Gabon will cause substantial increases in prices for non-traded goods, therefore fuelling inflation. Continued nominal exchange rate depreciation and the growing monetization of fiscal deficits will push up prices or sustain already high inflation rates in Eritrea, Guinea and Mauritania.

### **2.3.2 Downside risks mainly attributable to the structural weaknesses**

While the outlook for 2010 and beyond foresees a relatively strong rebound in economic activity, there are several risks. Some of these risks stem in large part from the structural weaknesses of African economies, in particular their continued high dependence on exports of primary commodities and low value-added products that are inherently subject to significant demand and price fluctuations.

Related to these are the uncertain prospects of the global economy. A slower-than-expected recovery of the global economy or relapse into recession and/or eruption of another global financial crisis could have detrimental effects on African economies. The occurrence of such events would weaken domestic financial markets, squeeze domestic credit and investment, reduce private and official flows to the continent, depress the demand for and prices of African exports, and decrease tourism receipts and remittances. Even if the global economy is to rebound at the expected pace, the

*Inflation is  
expected to  
decline further  
in 2010*

**The expected recovery might be gradual in most African countries**

recovery of African economies might be gradual, as the full resumption of private capital and trade flows might lag behind the global recovery.

Also, given the high dependence of many African economies on agriculture, severe fluctuations in weather conditions associated with climate change, might constraint economic activity in much of the continent.

Finally, another downside risk relates to the political and security situation. Any unexpected deterioration in political and security situations might undermine growth prospects in many countries, particularly those that will hold elections in 2010.

## 2. 4 Conclusions and policy recommendations

Africa's GDP growth decelerated markedly in the face of the recent global recession, with possible attendant consequences on social development. Countries that showed stronger resilience to the global economic crisis seem to have been mostly those that secured a broad-based growth, which means countries that have made some progress, albeit slow, in diversifying their production and export bases or accumulating huge reserves from commodity exports. This implies that Africa's long-term growth prospects and ability to sustain strong employment generation and broader social development depend on success in economic diversification (UNECA and AUC, 2007). Macroeconomic policies, structural policies and institutional reforms being formulated and implemented for Africa should therefore pay adequate attention to this goal.

Monetary policies have contributed to the significant decline in inflation rates in many countries besides anchoring inflation expectations and establishing the credibility of monetary authorities. Yet, there is scant evidence that these achievements were accompanied by increased investment, economic growth and diversification, and robust employment creation in these countries. The challenge is to ensure that monetary policies in these countries give more attention to developments in the real sector, including economic activity and employment, and not only to price stability.

To ensure greater payoffs, fiscal expansions should, as some countries did, target infrastructure and social services and strengthen safety net schemes. Long-term fiscal sustainability, however, requires that spending efforts be matched by commensurate domestic resource mobilization and renewed efforts by the international community

to live up to its aid commitments, particularly in favour of countries with limited fiscal space.

Countries, regardless of their exchange rate regime, are faced with the challenge of achieving an appropriate level for the real exchange rate that ensures the competitiveness of their tradable goods and services. Boosting spending in infrastructure, human capital and other productivity-enhancing activities will be an effective way to boost economy-wide productivity and competitiveness.

Sound macroeconomic policies alone cannot put African countries on the path of strong and sustainable growth. They should be complemented by structural and institutional efforts, including strengthening capacity in budget execution and reporting reforms of public utilities. Another sector in which urgent reforms needed is the banking and financial industry. Supervisory efforts in monitoring liquidity and credit risks should be extended to all financial institutions, including the pension funds, which have grown significantly in recent years. Also, improving the business climate, including streamlining procedures and better contract enforcement, will contribute to promoting private sector development, investment, economic diversification, growth recovery, employment generation and poverty reduction.

More broadly, in order to achieve the MDGs and other social development goals, African countries should put social development and gender equity issues at the forefront of their development agenda. The issues include: combating poverty and hunger; creating full employment and decent work opportunities for all; improving access to education, health-care and other social services; promoting gender equality; ensuring the social inclusion of vulnerable groups; designing effective redistribution policies; strengthening social protection systems; addressing maternal mortality and VAW; promoting peace and security; strengthening HIV/AIDS prevention and scaling up treatment; and enhanced collection and analysis of data to inform policy development .

*Social development  
should be put  
at the forefront  
of African  
recovery plans*

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# 3

## Selected current and emerging development issues for Africa in 2009

There are many economic and social development challenges that face Africa today, including marginalization from globalization, development financing, and climate change. Weak governance and poor leadership persist in many countries. Conflict and post-conflict reconstruction challenges prevail in some countries and regions though on a lower scale, hampering development efforts. Unemployment, the issue of focus in this report, and endemic poverty, stand out as major long-term development issues for the continent to address.

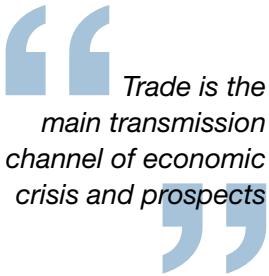
As the previous chapter has shown, more remains to be done to achieve the MDGs, especially the education and gender equality targets. In most countries, these issues are interrelated, strongly interacting with each other. Poor leadership and governance breed conflict and make post-conflict recovery difficult. Unemployment and poverty become more entrenched where conflicts or poor governance persist.

This chapter reviews progress in 2009 in three of these key areas, namely, trade performance and negotiations, trends and challenges in development financing in the context of the global financial and economic crisis, and climate change. While there were no major developments in trade negotiations in 2009, Africa's concerns focused on ensuring that agriculture and non-agricultural market access (NAMA) would remain the priority areas, as progress was sought in the rules, trade facilitation, services and other negotiations areas. In addition, efforts were made to harmonize the economic partnerships frameworks at regional and continental levels.

Development financing in Africa has been complicated by the economic downturn and the need to mitigate the impact of climate change. In this regard, although the promises at the United Nations Conference on Climate Change held in Copenhagen, Denmark in December 2009 remained modest relative to Africa's needs, they represented a step forward in the right direction. In line with the theme of this report, these issues have the potential to affect the capacity of African economies to create employment.

Depending on its share in international trade, the outcome of trade and climate change negotiations, and realization of development financing objectives, Africa could generate economic growth supportive of decent jobs. The continent's efforts

*The outcomes of trade and climate change negotiations are critical for African development prospects*



*Trade is the main transmission channel of economic crisis and prospects*

to enhance adaptation to climate change and mitigate its impact could also contribute to creating green jobs.

### 3.1 Developments in international trade in 2009

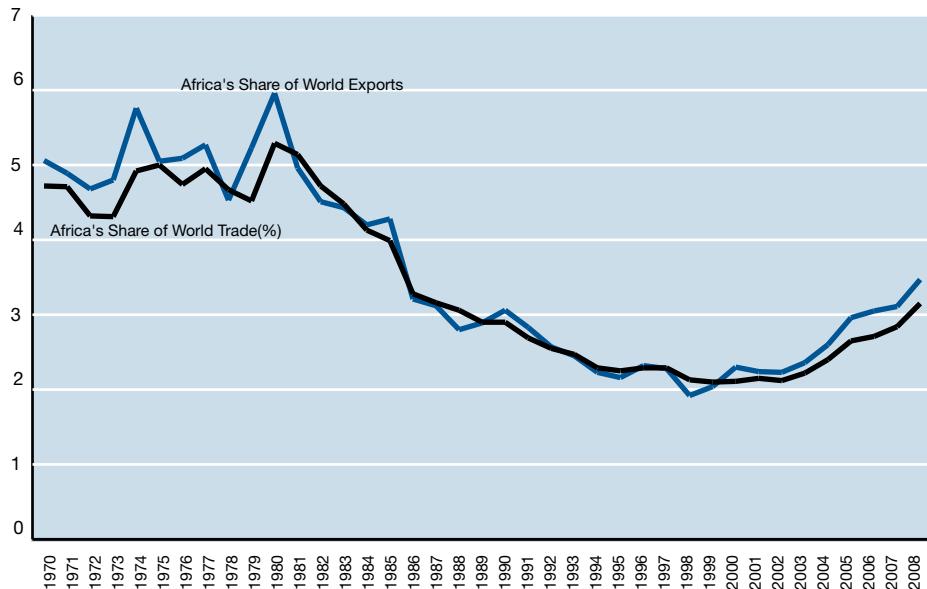
As the report has shown so far, 2008 was a turning point for the global economy including Africa. Trade, which contributes at least four-fifths of externally generated resources for development financing, was the main transmission channel of the crisis. The impacts of the global crisis on trade and employment in Africa were evident immediately after the crisis reached the real sector. Many mines in some African countries such as Botswana, Democratic Republic of Congo and Zambia were shut down. Impending major investments were scaled back or cancelled in countries such as, Central African Republic, Cameroon and South Africa, holding off new employment opportunities.

This section reviews the performance of African countries in international and intra-regional trade, which remains one of the crucial pillars around which Africa's trade marginalization can be addressed. After highlighting developments in and the potential of services trade for the continent, the section also reviews developments in international trade negotiations under the World Trade Organization (WTO) Doha Development Agenda (DDA), the Economic Partnership Agreements (EPAs), and the Aid for Trade (AfT) initiative.

#### Africa's trade performance

Africa's trade value has been increasing steadily concomitant with the rise in the prices of commodities, which continue to dominate Africa's export portfolio. This trend continued in 2008, in spite of the onset of the financial crisis in the second half of the year (figure 3.1). The positive growth in Africa's trade in 2008 was a reflection of the continent's weak integration into the global financial market and of the lag between the onset of the financial crisis and its evolution to an economic crisis with impacts on the real economy.

**Figure 3.1**  
*Africa's share in global merchandise trade (%)*



Africa's share  
in total global  
trade still  
marginal

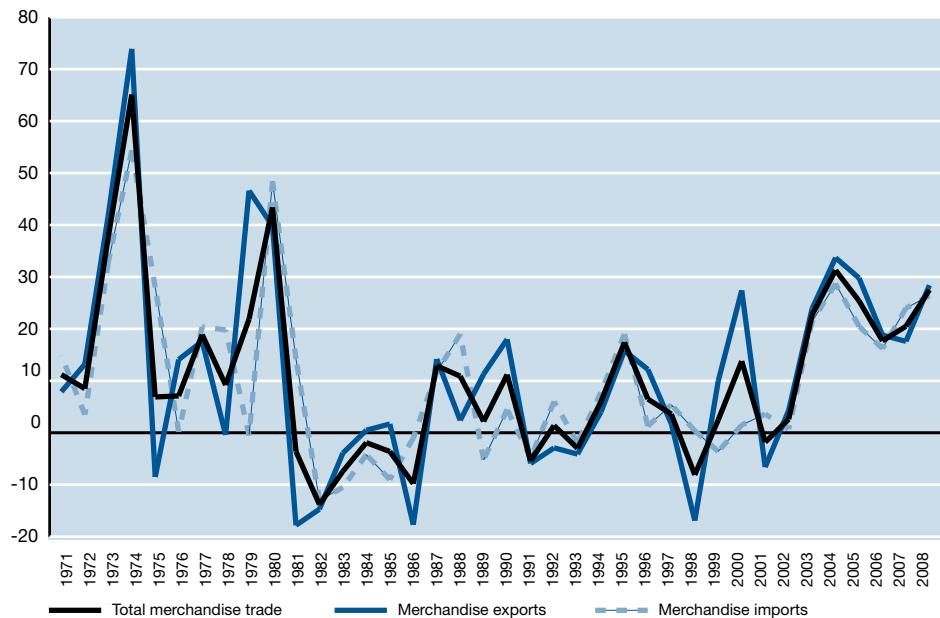
Source: WTO, 2009a.

The global share of Africa's total trade (exports and imports) actually rose slightly from 2.8 per cent in 2007 to around 3.2 per cent in 2008. This increase was driven mainly by improved commodities prices that peaked in the middle of 2008 before the financial crisis effects started to affect trade. In value terms, Africa exported \$465 billion worth of trade and imported \$558 billion in 2008, causing the region to break the one-trillion dollar mark for the first time in the case of merchandise trade.

The share of the continent's global exports reached 3.5 per cent, compared to 3.1 per cent the year before. Since the factors that have been driving trade expansion remained the same in 2008 as they were in 2007, the structure of trade did not change much. The 10 main exporters were resource-rich countries, particularly in oil (see UNECA and AUC, 2009). Africa's trade has remained highly volatile and pro-cyclical and continues to be largely determined by global economic developments (figure 3.2).

Africa's merchandise exports are dominated by agriculture, mining and fuel products

**Figure 3.2**  
Year-on-year growth rates of Africa's merchandise trade



Source: WTO, 2009a.

The continent's merchandise trade remains undiversified, both in portfolio mix and destination. Agriculture, mining and fuel products constitute at least 80 per cent of exports. Most of these exports go to Europe and North America even though there has been a discernible shift towards Asia, especially China and India (see UNECA and AUC 2009). This trade portfolio concentration exacerbated the vulnerability of Africa to the economic crisis.

For instance, the economic slowdown in the European Union (EU), USA and China in 2009 had a pro-cyclical effect on demand for African exports, which resulted in declining commodity prices. The abrupt fall in commodity prices caused significant terms-of-trade shocks in 2009 for African economies as indicated in chapter 2 of this report. The impact that this will have on the export sector is not likely to be limited to the medium-term but could have long-term economic and social implications as new investments get curtailed and the rural sector remains suffering from unemployment.

Moving forward, it is clear that Africa needs to build on the continuing shift in its trade structure towards Asia so that its strategic interests are protected. Specifically, the growing trade with China and India should be different in terms of composition from that which the region has had with the advanced economies of Europe and the

USA. This will happen if deliberate efforts are made to ensure that it is not a shift of the same exports from the traditional markets to the new ones.

Instead, Africa's trade with the rising economies of Asia should be tangibly different by composition, with increasing shares of manufactured goods and services. This has implications for the investment flows from Asia to Africa, which must go beyond extractive sectors to establishing joint ventures that add value to the raw commodities within Africa. This will ensure that Africa-Asia trade and investment helps to create decent jobs in the value-adding sectors.

Intra-African trade has remained low. Considering merchandise exports, total intra-African trade is still below 10 per cent. However, intra-African trade in agriculture and manufactures has reached twice the level of overall trade. Therefore, a solid basis exists upon which intra-African trade could be deepened, especially through regional value chains development (UNECA and AUC, 2009).

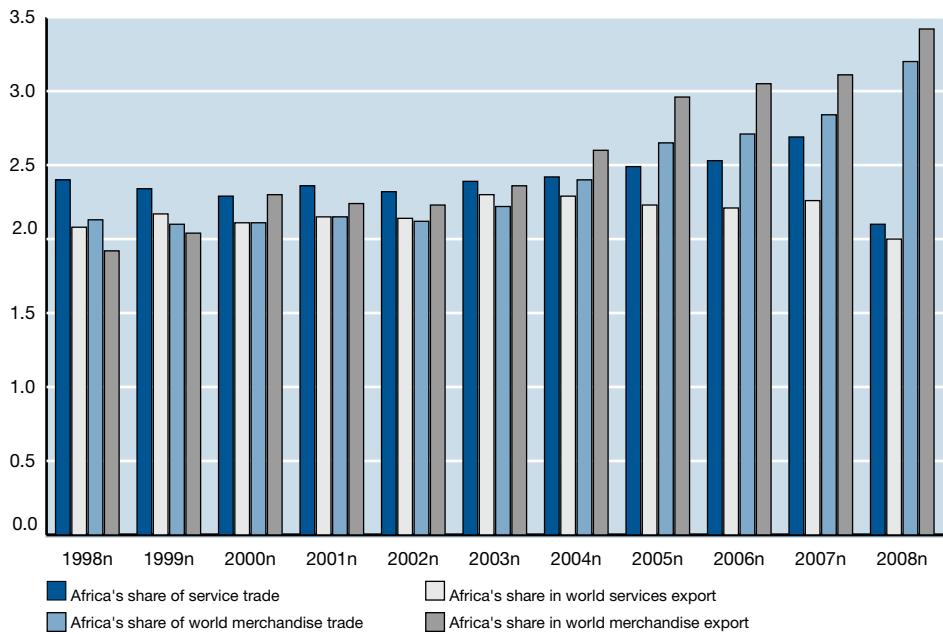
*“ Investment flows to Africa must go beyond extractive sectors to labor-intensive sectors ”*

## Africa's share in services trade

Trade in services has been one of the most robust areas of growth for most economies until the onset of the economic crises. The rapid pace of globalization witnessed one of the fastest expansions of trade in services across sectors and countries. Unfortunately, despite the promise that services trade holds, particularly in quick job creation, Africa's share of the global services trade has lagged behind merchandise trade. Its share of global services trade has been overtaken by merchandise trade. In 2007, the continent's total services trade reached \$174 billion, more than half of which were imports (figure 3.3). During the same year, Africa exported \$76 billion worth of services.

“  
 Services trade  
 offers a great  
 potential for  
 diversification and  
 job creation  
 in Africa  
 ”

**Figure 3.3**  
*Africa's performance in world trade in services\**



*Source:* WTO, 2009a

\* The data are from WTO (2009a) but the statistics for services trade for 2008 are incomplete for a number of African countries.

The services trade therefore holds much promise for Africa as a means of diversifying its export portfolio, particularly under Mode 4, which concerns the movement of labour across borders. In SSA, workers' remittances that grew at 37.2 per cent between 2000 and 2008 have also shown the services trade potential. Such remittances have been a major driver of growth in the value of the continent's services trade, which doubled over the 2003-2007 period.

Overall, services exports grew by 17.6 per cent annually over the same period. Building on this performance under all the Modes (1, 2, 3 and 4) will be crucial to consolidating the potential of services trade as an important anchor to African economic diversification and generation of new job opportunities.<sup>1</sup> Of significance is the strong bias towards intra-regional exports, with intra-Africa trade in services more than half of total services trade. In addition, services dominate the share of GDP in most African countries, a further indication of the scope and potential that such trade portends for the region.

<sup>1</sup> There are 4 Modes of supply of services: Mode 1 where the service moves across border (cross-border trade); Mode 2 where the consumer goes to where the service is delivered (consumption abroad); Mode 3 where the service provider sets up a commercial presence; and Mode 4 where the service provider moves to the consumer (movement of natural persons).

## **Developments in the WTO Doha Round of International Trade Negotiations<sup>2</sup>**

There was no ground-breaking progress in international trade negotiations in 2009 despite efforts to kick-start the negotiations in light of the global financial crisis and in recognition of the fact that keeping international markets open would help moderate the impact of the crises. The fear that there would be an escalation of protectionist measures persuaded WTO members to enhance their surveillance, at the same time using the need for this as a credible reason for concluding the Doha Round.

In addition, the credit squeeze in the immediate aftermath of the financial crisis created additional spotlight effects on the Doha Round as trade finance dried up. However, there was not sufficient impetus to create movement in the Doha Round. The negotiation modalities have remained the same as summarized in the *Economic Report on Africa 2009* (see UNECA and AUC, 2009).

Negotiations on agriculture and NAMA remained the main areas of focus. African countries continued to show particular interest in these two areas of focus given the promise they offer as pillars in their development strategies. Most employment in Africa has remained in agriculture, and in the countries where manufacturing sector employment has become significant, the industries rely heavily on agriculture for their inputs. Thus, any audit of the development content of the Doha Round outcome would begin for Africa with assessment of what comes out of the agriculture and NAMA negotiations. It is for this reason that the negotiating texts for agriculture and NAMA issued in December 2008 after several rounds of consultations among members constituted an important starting point in assessing how well the African expectations in the Round were being captured and reflected.

The December 2008 texts have not yet been subjected to a rigorous discussion at multilateral level owing to the fact that there was no real engagement by the major players, especially the USA, in 2009. Furthermore, since the beginning of 2009, efforts have been devoted to reviving the needed political will to resume the negotiations. In addition, signals from the new US administration suggested that the USA was dissatisfied with the content of the December 2008 modalities (especially with regard to the level of market access of major developing countries).

The USA has demanded that there should be more clarity and transparency regarding utilization of available flexibilities. This has meant a change in the approach

“ No progress  
in Doha round  
of WTO  
negotiations  
in 2009 ”

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<sup>2</sup> For presentation and discussion of Doha Round progress from the African perspective, see UNECA and AUC, 2008 and 2009.



*Agriculture remains the key to the overall success of the Doha Negotiations*

to the negotiations, by shifting focus to how the flexibilities should be reflected in future schedules rather than focusing on discussion of the draft modalities<sup>3</sup>

African countries still see the successful conclusion of the Doha Round as a means to opening up external markets for their products. Agriculture remains the key to determining the overall success of the negotiations. WTO members continue to argue that NAMA modalities should reflect their development concerns and that expected commitments should not lead to de-industrialization, a process that could lead to significant job losses. The commitments ought to be guided by the principle of less than full reciprocity without resulting in preference erosion.

While agriculture and NAMA feature as the dominant areas of promise for Africa in the negotiations, other clusters including services, trade facilitation, Least Developed Countries (LDCs), special and differential treatment, rules (SDT), trade and environment, Trade-related Intellectual Property Rights (TRIPs), dispute settlement, AfT, and accession issues also continue to attract attention (UNECA and AUC, 2009).

Although there was no significant progress in terms of Doha modalities in 2009, the political economy of the negotiations was vibrant. This context affects how the negotiations evolve in 2010 given that WTO members committed themselves during the Seventh WTO Ministerial Conference to make an effort to conclude the Round in 2010. The remainder of this section therefore highlights some of the political economy issues that arose in 2009 that are likely to influence the process and outcomes of the negotiations in 2010.

The first development is evolution of the new international governance architecture represented by the Group of Twenty (G-20) forums.<sup>4</sup> This new architecture influences the ordering of global economic priorities. Ideally, the G-20 meetings in 2009 were expected to create the political momentum for concluding the Doha Round, given the role open markets could play in helping global economic recovery. However, careful analysis of the communiqués of 2009 suggest that global trade negotiations were overtaken by emerging global issues including the economic crisis and the climate change negotiations. The Doha Round was therefore not as prominent as would have been expected.

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3 This has introduced simultaneous tracks. The first track focuses on technical engagement in the negotiating groups, covering a number of technical issues. The second track is where members are expected to start ‘outcome testing’ through bilateral or multilateral discussions, providing each other with greater clarity on the use of flexibilities and the value of the deals.

4 The G-20 refers to the Group of 20 developed and emerging developing countries formalized in Pittsburgh, USA at an apex global forum for discussing global economic and financial issues. It is different from the G-20 of WTO, which is a coalition of developing countries (WTO 2009b).

*The re-ordering  
of the sequence  
of negotiations  
under the Doha  
would unsettle the  
delicate balance  
reached in  
Hong Kong*

For instance, the communiqué from the Pittsburgh Summing in 2009 was vague on whether there would be conclusion of the Round in 2010. The L'Aquila G-9 Summit communiqué was also unclear, beyond implicitly implying that the basis for future negotiations was the progress already made, probably with the 2008 modalities as the working hypothesis. Introduction of the notion of a hypothesis could be interpreted as downgrading of the December 2008 negotiations modalities, a situation that could lead to re-opening of negotiations texts that African countries felt were already stable.

Another notable political economy development in 2009 was the restructuring of the negotiations process. Most of the discussions in Geneva, especially in the second half of 2009, have been on a bilateral basis and African countries have lost out in the engagement given their weak capacity to participate in all these bilateral talks. Some of the issues agreed in the bilateral process ultimately shape the final outcomes and have implications for Africa. It is still unclear how the emerging negotiating processes will affect Africa, without their full integration into the vertical process.

The third development, which relates to the emerging structure dominated by bilateral processes, is the possibility of a re-sequencing of the December 2005 Hong Kong Ministerial Decision. The engine of the Doha Round from the African perspective has been agriculture and NAMA, followed by other areas of negotiations. Any re-ordering of this sequence could have implications for African countries. Re-sequencing would unsettle the delicate balance reached in Hong Kong.

African countries are agreed that if agriculture and NAMA issues were to be concluded first, in consistence with their common position, there would be impetus to move forward. A selective approach to the negotiations where a few elements in agriculture, NAMA and services are picked (based on trade-offs of some elements) will be counter-productive as these elements may not necessarily be of interest to Africa.

Some of the continent's interests in agriculture and NAMA have already been secured. For example, a decision was reached to eliminate agriculture export subsidies by 2013; the tiered formula for agriculture would lead to steeper cuts for high tariffs; and the principle of special products and special safeguards (SSM) was also accepted.

Beyond market access negotiations, duty-free quota-free market access for LDCs is under implementation. Similarly, the Aft initiative that was sealed during the Doha Round process is also under implementation. Therefore, African countries need to ring-fence these gains and concentrate their energies on other sectors of negotiations such as rules, trade facilitation, and fisheries where they are not paying enough attention. If a selective negotiating process prevails, it might be difficult for Africa to bargain on other issues beyond agriculture and NAMA.

African countries must ensure that development elements are secured in the Doha Round

More importantly, African countries must ensure that development elements are secured in the Doha Round for it to be deemed development friendly. An important observation that can be made at this point is the link that these development issues have with the agenda for job creation and job protection. The African position has continuously emphasized the need for policy space through flexible modalities, especially in the NAMA and agriculture negotiations and also in elaboration of the General Agreement on Trade and Tariffs (GATT) rules. Employment creation and protection are two of the key underlying motives for including flexibilities in the development dimensions.

The following are the development elements highlighted in Africa's position, which if secured, would have direct, positive impacts on employment in the sectors affected: strengthening of SDT; addressing the implementation issues to improve WTO rules; amendments in Article 24 to enable use of the SDT principle in EPAs and regional trade arrangements; effective disciplining and reduction/elimination of US and EU agriculture subsidies; elimination or drastic reduction of cotton export and domestic subsidies; a new SSM for developing countries that is effective and simple to use and which can truly curb import surges (including for Free Trade Area (FTA) products); progress in labour services (Mode 4) to give more developing country access to the labour markets of developed countries; effective duty-free, quota-free market access for LDCs; exemption of LDCs from market access obligations; flexibility for developing countries under NAMA; benefits to developing countries in Modes 1, 2 and 3 in services; and domestic regulations and rules in services should allow flexibilities for developing countries.

## **Status of the Economic Partnership Agreements Negotiations**

Concerns and challenges have persisted in the EPA negotiations, particularly in terms of their implications for regional integration in Africa. The possibility that they could displace some of the ongoing intra-African trade has raised concerns about de-industrialization, a phenomenon usually associated with labour market adjustments. Such adjustments for Africa are likely to be short-term increases in unemployment, before support measures take hold in affected sectors and economies. There were no significant changes in the state of play of the EPA negotiations in 2009.

Although the ongoing negotiations are meant to be time-bound in compliance with the requirement for WTO compatibility, EU and its five negotiating groupings in Africa continued in 2009 with their efforts to resolve the outstanding issues that have either prevented some countries from initialling the Interim EPAs in 2007 or from signing them in 2008 (UNECA and AUC, 2009; Karingi and Deotti, 2009). The original objectives of the EPA negotiations, namely global integration, African

development objectives, support for African regional integration and a more solid relationship with EU, remain uncertain due to non-conclusion of the negotiations. The challenge with EPAs remains the need for resolution of contentious issues arising mainly from the existing, ongoing African integration agenda. The final agreements should lead to realization of the original EPA objectives.

An important development in 2009 was endorsement by African Ministers of Trade of an EPA Template prepared jointly by AUC and UNECA as a guide to RECs in their coordination of EPA negotiations. The Template provides guidance on how the different African negotiating groups could harmonize positions and language on the contentious issues being negotiated so that regional integration objectives and goals will not be undermined. Since their beginning, EPA negotiations, coordination and harmonization of positions proved to be a challenge because of the different paces of negotiations and different regional priorities. Nevertheless, resolving the persisting contentious issues in EPA negotiations needs the shared experiences of all African groupings.

### **State of play in EPA negotiations, views on progress, achievements and challenges on contentious issues**

While there are many African countries that did not initial the interim EPAs in 2007, most of them have since initialised the agreements. Contentious issues notwithstanding, the countries that initialised and signed the interim agreements highlighted the need to protect their EU markets as the main motivation. In 2009, the negotiations capital among the African countries has been spent in ensuring that there is cohesion among the various groupings. For instance, due to the need to maintain SACU cohesion in SADC, critical challenges have been posed for Botswana, Lesotho, Namibia and Swaziland in relation to their implementing the interim EPA without South Africa.

In order to ensure cohesion, the various groupings have made efforts to ensure that contentious issues will be addressed. The areas where there have been differences between EU and various African groupings include: export taxes, quantitative restrictions, infant industries, definition of EPA Parties, the MFN clause, services, and safeguards among others. Some of the negotiating groups reached agreements to deal with some of the contentious issues. For instance, agreement has been reached in SADC in most of the areas except on the outstanding issues relating to definition of Parties and the MFN clause. The SADC-4 countries have gone ahead to sign the interim EPAs and are looking ahead to implementation and notification to WTO, even as the negotiations towards a comprehensive EPA continues. These EPAs include services and investment issues.

*“ Resolving the persisting contentious issues in EPA negotiations need the shared experiences of all African groupings ”*

*Cohesion among  
the various African  
groupings remains  
a challenge to EPA  
negotiations*

In East and Southern Africa (ESA), EPAs have affected the regional programmes which involve most COMESA countries. As a result, the regional approach for most of 2009 was to conclude the EPAs on what had already been agreed. Contentious issues remained and these included MFN, services and safeguards. On trade-related issues, the ESA countries were still not ready to make commitments and their focus was mainly on development and capacity-building elements. They negotiated competition policy and the key issue was treatment of state enterprises.

Broad agreement was reached in the areas of agriculture negotiations but there was still the sticking point of the EU export subsidies. The broad text on development has also been already agreed. ESA countries have shown interest in a link between agricultural subsidies and safeguards. As in the case of SADC-4, ESA countries that initialled the interim EPA have tried to lock down textually the progress they have made and have since signed the interim EPAs. The remaining areas form the in-built agenda for future negotiations. The full EPA for the grouping will be concluded in 2010, initialled and signed.

In West Africa, the negotiations were on track, based on the regional strategy adopted. The focus in 2009 was on identifying sensitive products and preparing the market access offer to EU. The region's aim was to have 40 per cent of the products excluded from the liberalization. An EPA Development Programme (EPADP) was also concluded and it will allow ECOWAS to implement modernization and capacity-enhancement programmes for the region. On the issue of rules of origin, the region has prepared harmonized rules that form the basis for continued negotiations with EU.

In Central Africa, Cameroon has signed an interim EPA while Gabon and Republic of Congo are trading with EU under the Generalized System of Preferences (GSP). In the case of other Economic Community of Central African States (ECCAS) and Sao Tome and Principe, some progress with the negotiations was registered in 2008 after major disagreements with EU in 2007. The progress has been registered based on a common understanding on the question of asymmetry. As a result, EU agreed to provide resources for a regional EPA fund (FORAPE) with an initial amount of \$150 million. The region has designated its sensitive products but there are still some disagreements regarding the level of asymmetry. It wants the symmetry in market opening to be at most 71 per cent while EU would like 80 per cent based on its interpretation of substantial trade.

Based on previous experiences in the other regional interim EPAs, this may not be a major issue. In the area of services, African countries are not ready for more liberalization and all face similar issues.

## **WTO linkage with EPAs**

There has been lack of linkage between the WTO and EPA negotiations. Initially, African countries insisted on having the Doha Round concluded before the final comprehensive EPAs as they could be at a disadvantage if these were to be concluded before the Doha Round outcomes. They still face the dilemma of deciding the speed at which they should conclude the comprehensive EPAs if there is movement in the Doha Round. Ensuring that the WTO concessions are locked into the EPAs supports the idea that the sequence ought to remain the WTO Doha Round agreements first and then come finalization of EPAs. For instance, with respect to WTO rules and negotiations, there is the mandate in Paragraph 29 of the Doha Declaration which, if addressed, would have EPA implications.

Similarly, in WTO services negotiations, there has been a lot of work done regarding domestic regulations disciplines. These disciplines have the potential to inform the SADC services negotiations. More importantly, an overlap between EPA and WTO safeguards should be expected. However, so far, there has been no reference to safeguard provisions in EPAs and in the WTO negotiating texts for agriculture and NAMA, safeguards are only available for MFN trade.

EU could use SSG provisions but African countries might not be able to use these safeguards with respect to the EC-sourced import surge. The current text does not recognize preferential trade as part of safeguard provisions. African countries do not have access to the SSG of the agreement on agriculture to which EU has access. It is therefore reasonable that there should be a clause in EPAs that allows African countries to refer to the SSM provisions if these are agreed in WTO negotiations.

African countries must avoid any overlap between EPA and WTO negotiations

## **EPAs and regional integration**

As indicated above, serious concerns remain with regard to the effect of the EPA process on regional integration in Africa. It is important to fix certain fundamental elements in the EPAs for African countries to be able to deepen integration. These issues include regional liberalization offers, coherence between EPAs and existing/planned regional agreements, e.g. the COMESA-EAC-SADC FTA, and rationalization of the regional groupings and RECs.

The agenda for rationalizing RECs through the minimum integration programme (MIP) of the African Union requires close attention by EPA negotiators. Thus, it is very important to negotiate and implement EPA commitments regionally and narrow national interests that do not encompass winning interests for the whole region should not be allowed to block the bigger vision of African integration.

**EPA negotiations  
must be consistent  
with Africa's regional  
integration  
priorities**

Regional negotiation and implementation will help to ensure coordinated reforms and projects that aim to strengthen regional integration.

A regional approach will allow EPAs to be the springboards for the ambitious implementation of the regional protocols on trade facilitation, investment codes, regulations, and others. It is also important to recall that EPAs can only further the deepening of regional integration if they go beyond the current focus on tariff commitments to include the full continuum of the integration process, namely, trade facilitation and network infrastructure development; trade in services and investment; and productive sector issues.<sup>5</sup> This calls for improvement in the regional dimensions of AfT and further clarification of the EPA initiatives.

### **Progress in the implementation of the Aid for Trade initiative in Africa**

The continent's trade structure still lacks diversity in terms of production and exports and intra-Africa trade remains low, mainly as a result of high trade costs occasioned by poor infrastructure and inefficient trade facilitation. African producers and exporters still find it easier to trade with the rest of the world, where they specialize in low-value raw commodities. Yet, the continental platform offers a market upon which firms could build competitive industries develop diversified export portfolios.

The potential for regional value chains also remains almost untouched. Potentially, the AfT initiative could benefit African countries in dealing with these high trade costs through upgrading infrastructure networks, modernizing inefficient ports and customs facilities, and strengthening institutions.

### **The quantum of Aid for Trade commitments to Africa**

The Second Global Review of the AfT initiative was conducted in July 2009. The years 2002-2005 were the base period upon which the AfT flows were globally monitored. Based on the creditor reporting system data from OECD (as agreed globally), ECA and AUC analyses concur with the outcome of the July 2009 review, that there had been substantial and measurable progress in AfT implementation in Africa (UNECA and AUC 2009).

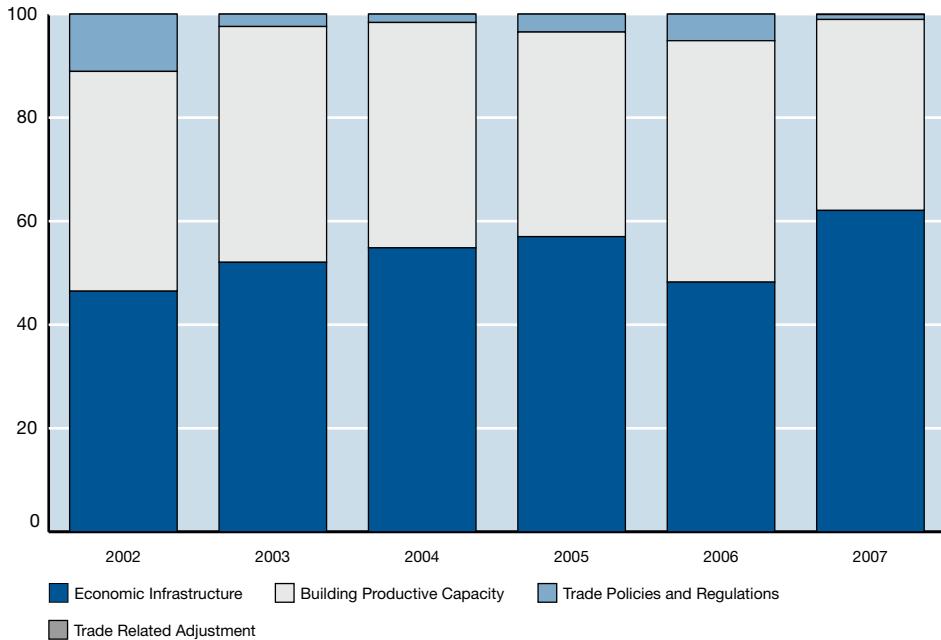
The analysis has shown that AfT commitments to Africa have been increasing year by year since 2002 by an average of 17 per cent in nominal terms. Compared to the globally agreed 2002-2005 base period, AfT commitments to Africa in 2006 had

<sup>5</sup> Concerning the negotiations for trade in services, there is much focus on the internal policies of nation States. It is important within the negotiating groupings to have an understanding of regional issues - variable geometry might work in services as long as the winning set takes account of the needs of all countries in a given region.

risen by 21 per cent, to reach \$6.2 billion.<sup>6</sup> By 2007, the commitments had risen by 62 per cent from the base period to \$8.3 billion.

**Figure 3.4**

*Allocation by broad categories of AfT commitments to Africa (%)*



Aid for Trade initiative's resources flow to Africa has been increasing since 2002

*Source:* OECD online database, 2009.

Overall, AfT resources flow to Africa has increased at a faster rate than in Asia and Latin America. There has also been some additionality (i.e. no shifting of ODA resources) in AfT commitments, with Africa taking 60 per cent of additional funds in 2007. Economic infrastructure accounts for more than 60 per cent of AfT resources to the continent, followed by building productive capacity (36 per cent) (figure 3.4). The allocations to economic infrastructure have been rising steadily, reflecting the attention that African countries are giving to such infrastructure development.

Similarly, the substantial allocations towards building productive capacities have been aimed at addressing the low level of diversification. The allocation of AfT at country and REC level varies. In general, except for ECOWAS where building of productive capacity takes the lion share of AfT resources, economic infrastructure dominates allocations.

<sup>6</sup> There are sub-categories within each of the categories discussed here from the OECD Creditor Reporting System (CRS) database.

**Promoting greater ownership of the Aid for Trade initiative in Africa is key for its success**

## Focus areas in the monitoring of Aid for Trade in 2009-2011

During the Second Aft Global Review, issues were raised on how best to optimize the Aft initiative. Subsequently, the WTO members identified areas of focus for 2009-2011. African countries have been involved in determination of the priority areas of focus for the monitoring done by the WTO Committee on Trade and Development.

The objectives of the areas of focus until the Third Global Review in 2011 are to: encourage developed members of WTO to honour their Aft commitments and make new and additional commitments; promote greater ownership of this initiative in developing countries by further mainstreaming trade into the national and regional economic planning frameworks and dialogues; strengthen its regional dimensions with partners including development banks and bilateral donors That are taking the lead in evolving clear and focused Aft projects; place greater emphasis on implementation of these projects, particularly through regional Aft events; further refine evaluation and monitoring mechanisms and emphasize tracking, impacting notably through development of common evaluation frameworks; and support wider Aft dialogue with the private sector at national, regional and global levels.

## 3.2 Financing for development in the context of the global financial and economic crises

Access to adequate finance is critical to achieving the MDGs as African countries are slowly recovering from the negative effects of the global economic crises. This section reviews the consequences of the global financial and economic crises based on the six core areas defined in the framework of the Monterrey Consensus on Financing for Development that was adopted in March 2002 by the international community. These areas cover domestic financial resources for development, international resources for development, international trade, international financial and technical cooperation for development, external debt, and systemic issues.

The global financial and economic crises resulted in reduction of Africa's internal and external resources for development financing. The continent has been hard hit by the crises both directly and indirectly. The direct effect has been felt through the financial sector of some African countries, mainly through the turmoil in their stock exchange markets. The indirect impacts were felt when the global financial crisis turned into a global economic recession because of Africa's high dependence of

Africa on advanced economies. This applies in terms of external sources of financing such as trade, private capital flows, remittances and ODA.

## Domestic resource mobilization

It is important that African countries rely more on domestic resources to finance long-term growth and employment projects given the uncertainty of external finance. In addition to being more predictable, domestic sources of finance provide more policy space and reduce vulnerability to external financial shocks. However, despite progress in mobilizing domestic resources since the Monterrey Consensus, Africa is still far from meeting its investment needs from domestic resources and the resource gap has widened as a result of the global financial and economic crisis.

Gross domestic saving in SSA fell from 25 per cent of GDP in 2008 to 19.3 per cent in 2009. In nine SSA countries, the decline in domestic savings in 2009 relative to 2008 was more than the 5.7 average percentage points drop for SSA: Botswana (-16.6 percentage points), Angola (-12.1), Chad (-11.9), Gabon (-11.4), Nigeria (-9.3), Cameroon (-9.0), DRC (-8.4), Mauritius (-7.5), and Lesotho (-6.9). In North Africa, domestic saving rates have been relatively higher than in SSA owing to higher incomes and oil and gas revenues, although the latter declined in 2009 with falling oil prices.

Throughout Africa, government revenue also saw considerable contraction in 2009. In SSA as a whole, government revenue excluding grants declined from 25.1 per cent of GDP in 2008 to 21 per cent in 2009. Again, this average decline masked considerable variations among countries. Eight countries registered a decline above the SSA average of -4.1 percentage points. Togo, Liberia, Seychelles and Zimbabwe saw an increase in government revenue relative to GDP by more than 2 percentage points. In North Africa, the decline in government revenue in 2009 was particularly high for oil-dependent countries such as Algeria (10 per cent) and Sudan (7 per cent). Only the Libyan Arab Jamahiriya recorded a marginal increase in government revenue in 2009 while Mauritania maintained the same level of revenue as in 2008.

Many African countries made notable efforts to strengthen domestic resource mobilization through such measures as improved tax and customs administration, good fiscal governance and management of external debt, and increased mobilization of private savings. These efforts need to be sustained and strengthened over the long term.

*Mobilizing  
more domestic  
savings is essential  
for Africa to meet its  
long-term  
growth targets*

**“ FDI inflows to Africa remain concentrated in a few countries ”**

## Private capital flows

With sustained fast inflows since 2003, FDI in Africa rose to a record peak of \$87.6 billion in 2008, up from \$20.9 billion and \$69.2 billion in 2003 and 2007, respectively. However, preliminary quarterly data for the first quarter of 2009 indicated that FDI inflows to the region have plunged by 67 per cent (UNCTAD, 2009). Most FDI flows were directed to mineral and natural resource-rich African countries, although the sharp drop in commodity prices constrained additional investments in these sectors and/or resulted in some delays in implementation of projects in 2009.

FDI inflows to Africa remain concentrated in a few countries with the top 5 and 15 recipients accounting for 63.2 per cent and 87.9 per cent of total inflows during 2004-2008 compared to 57 per cent and 85.8 per cent during 2000-2003. Nine of the top ten FDI-attractive countries during 2000-2003 remained among the top ten during 2004-2008 with their share in the total FDI inflows increasing from 73.7 per cent to 76.2 per cent over the same period. These countries included Algeria, Angola, Egypt, Equatorial Guinea, Morocco, Nigeria, South Africa, the Sudan and Tunisia.

The bottom fifteen FDI destinations in Africa, of which only two are resource-rich countries (Sierra Leone and Sao Tome and Principe), accounted for only 1.1 per cent of the total FDI flows to the region during 2004-2008. The prospects for FDI inflows to Africa depend on recovery in the advanced economies and on the world prices of commodities.

Moreover, as a result of adverse developments in some African stock exchange markets, some countries (Botswana, Egypt, Kenya, Mauritius, Nigeria and Zambia) experienced significant wealth losses. However, there were no major bank failures reported in Africa due to the fact that most African banks did not have significant exposure to the sub-prime mortgage markets and asset-backed securities, though a number of them proved vulnerable to the contagion effects arising from foreign ownership.

## Workers' remittances

Workers' remittances have played an increasingly important role in financing Africa's development. The inflow of workers' remittances increased from \$11.2 billion in 2000 to \$40.8 billion in 2008 (figure 3.5). A large part of these inflows was used to finance household consumption with a direct effect on poverty.

The importance of remittance inflows varies considerably across African countries. For instance, in 2008, remittances accounted for more than 5 per cent of GDP in

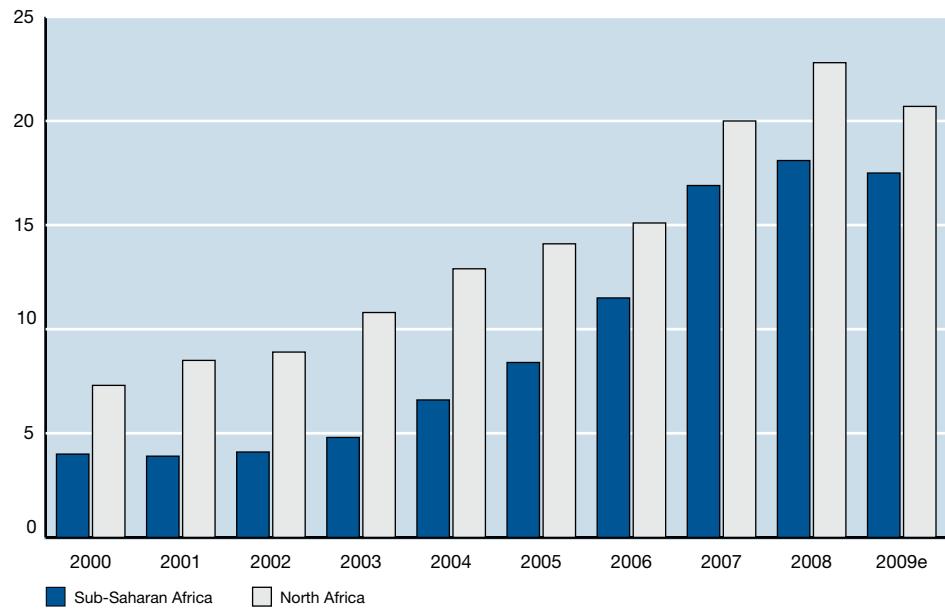
“ Specific  
and targeted  
measures are  
needed to attract  
increased  
remittance  
flows ”

ten African countries: Lesotho (27.3 per cent), Togo (10.1 per cent), Senegal (9.8 per cent), Cape Verde (9.0 per cent), the Gambia (8.2 per cent), Morocco (8 per cent), Sierra Leone (7.7 per cent), Liberia and Guinea-Bissau (7 per cent), and the Sudan (5. per cent). However, remittances represented only 0.02 per cent of GDP in Malawi and Libya and 0.1 per cent in Gabon, Madagascar, Mauritania, Republic of Congo and Tanzania. Six African countries - Egypt, Nigeria, Morocco, the Sudan, Algeria and Tunisia – accounted for 78 per cent of the total remittances received by Africa during 2000-2009.

Recent data indicate a decline in workers' remittances to Africa by 7 per cent in 2009 due to the recession in advanced economies that resulted in sizeable job losses. The six largest recipients of remittances in Africa accounted for more than 93 per cent of the decline in remittances in 2009.

Morocco, Egypt, Kenya and Liberia experienced the largest decline in remittances in 2009 at the rates of 17 per cent, 10.3 per cent, 7.1 per cent, and 5.1 per cent, respectively. Some countries saw an increase in the inflow of remittances in 2009 - Lesotho (by 12 per cent), Swaziland (10.9 per cent), Mozambique (7 per cent), Botswana (6.8 per cent), Uganda (5 per cent), Burundi (4.7 per cent), Rwanda (2.5 per cent), and Malawi and Libya (0.5 per cent).

**Figure 3.5**  
*Workers' remittances flow to Africa, 2000-2009 (\$billion)*



**Source:** World Bank, 2009a.

**Note:** Data for 2009 are based on estimates.

## Trade

*Limited and underdeveloped trade finance instruments constrain export growth in Africa*

As already discussed previously, trade was the main channel through which most of the effects of the global downturn on the real economic activity and employment were felt in Africa. The global economic downturn reduced demand in major African trading partners, leading to a sharp fall in commodity prices and export revenue in Africa. As discussed in chapter 1, the most affected commodities were crude oil with a price decline of 50 per cent between February 2008 and February 2009, and copper, coffee, cotton and sugar with a price decline of more than 20 per cent over the same period.

The fall in both commodity prices and export volumes led to a drastic fall in the export earnings of African countries since the last quarter 2008. For instance, the revenue from merchandise exports of selected African countries fell by more than 25 per cent in the second quarter of 2009. Similarly, merchandise imports by these countries declined in 2009. The decline in global trade also adversely affected domestic resource mobilization as trade taxes constitute a significant proportion of domestic revenue.

Meanwhile, the global liquidity crunch reduced the availability of trade financing. About 80 to 90 per cent of world trade relies on trade finance including letters of credit, trade credit, insurance and guarantees. This supports the call for African countries to diversify trade in terms of products and destinations, and in particular, to promote intra-Africa trade. Such action taken will reduce vulnerability to external shocks and strengthen the role of trade as an engine of long-term sustainable growth and employment.

## Official development assistance

Total ODA to Africa steadily increased from \$15.6 billion in 2000 to \$43.5 billion in 2006 but declined to \$39.1 billion in 2007 before rising again to \$44.0 billion in 2008 (table 3.1). The largest fall in net ODA in 2007 came from the substantial aid cut in net ODA by the top five largest bilateral donors to Africa (USA, France, United Kingdom, Germany and Japan) that altogether slashed aid to the region by 32.3 per cent.

The largest bilateral donor's total aid to all developing countries is still far below the target of 0.7 per cent of their gross national income. Aid from bilateral donors accounted for 68 per cent of the total aid to Africa during 2004-2008 with the top five donors accounting for 44 per cent of the total aid to Africa during the same period.

**Table 3.1****Total net ODA flows to Africa, 2000-08 (billions of current \$US)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net ODA disbursements	15.6	16.8	21.8	27.3	29.7	35.5	43.5	39.1	44.0
ODA Total, excl. Debt	14.5	15.3	18.6	20.5	25.3	26.6	28.3	35.4	42.0

**Source:** OECD online database, 2009.

Africa's share in total ODA flows to all developing countries increased from 31.2 per cent in 2000 to 34.2 per cent in 2008 with an increasing number of African countries becoming increasingly aid dependent. Net ODA flows to 23 African countries accounted for more than 10 per cent of Gross National Income during 2004-2008 and more than 20 per cent in 10 countries – Eritrea, Malawi, DRC, Rwanda, Mozambique, Sao Tome and Principe, Guinea-Bissau, Sierra Leone, Burundi and Liberia. Any decline in aid flows could have significant impact on the economies of these countries. Conversely, the least aid-dependent African countries (Algeria, Equatorial Guinea, Gabon, Libyan Arab Jamahiriya, Mauritius and South Africa) are less exposed to the impact of the global economic slowdown flowing through aid.

Despite enhanced multilateral lending capacity to mitigate the impact of the global economic crisis, ODA to Africa is expected to decline in 2009 as the economic recession in bilateral donor economies forces them to cut aid budgets that tend to be pro-cyclical.

Bertoli and Sanfilippo (2009) have estimated that aid from Development Assistance Committee (DAC) donors to all developing countries fell by \$22 billion in 2009. This clearly indicates a possible decline for Africa too. Some DAC donors have already announced cuts in their aid budgets. For instance, Italy and Ireland announced in February 2009 that they would cut their total budget for aid by 50 per cent and 22 per cent, respectively. ODA from DAC donors to Africa accounted for more than 66 per cent of the total aid and more than 98 per cent of total bilateral aid flows during 2004-2008.

Non-DAC members such as Arab donors (including Arab States and Funds), Republic of Korea, Turkey, and EU members who are not members of OECD have been playing an increasingly important role in financing Africa's development through development aid. The role of China and India has already become significant for African countries, particularly in the energy and infrastructure sectors. The cooperation programme of China in Africa has attracted particular attention, as the country committed to double aid to Africa from 2006 to 2009. China's aid alone to fragile African economies was more than \$6 billion in 2007. It has also provided debt relief to heavily indebted poor countries (HIPC)s and LDCs (Bertoli and Sanfilippo, 2009; APF, 2010).

*An increasing number of African countries is becoming more aid-dependent*

## External debt and debt relief

**Despite debt relief, Africa's external debt remains high**

A large number of African countries have benefited from debt relief under both the HIPC initiative and the multilateral debt relief initiative (MDRI) with the total benefit amounting to \$97.4 billion in nominal terms as of end July 2009. Twenty-nine of the 35 countries globally that have qualified for HIPC initiative assistance are African countries at an estimated cost of \$61.6 billion as of end July 2009 (table 3.2). Twenty-one of the 29 African HIPCs reached completion point and qualified for MDRI, thus benefiting from MDRI assistance amounting to \$35.8 billion as of end July 2009. Moreover, 4 African countries were among the five global HIPCs at pre-decision point in the same period.

**Table 3.2**

*Heavily indebted poor African countries with committed debt relief as of end July 2009 (in \$US millions)*

21 Post-completion-point African Countries						
No.	Country	Assistance Delivered under		No.	Country	Assistance Delivered under
		HIPC	MDRI			
1	Benin	460	1145	12	Mauritania	1100
2	Burkina Faso	930	1226	13	Mozambique	4300
3	Burundi	1366	108	14	Niger	1190
4	Cameroon	4917	1304	15	Rwanda	1316
5	Central African Republic	804	288	16	Sao Tome & Principe	263
6	Ethiopia	3275	3346	17	Senegal	850
8	Gambia	112	374	18	Sierra Leone	994
7	Ghana	3500	3947	19	Tanzania	3000
9	Madagascar	1900	2427	20	Uganda	1950
10	Malawi	1628	1610	21	Zambia	3900
11	Mali	895	2006			
8 Interim African Countries						
1	Chad	260	..	5	Guinea	800
2	Congo, D.R.	10389	..	6	Guinea-Bissau	790
3	Congo, R.	2881	..	7	Liberia	4008
4	Cote d'Ivoire	3415	..	8	Togo	360
4 Pre-Decision-Point African Countries						
1	Comoros	..	..	3	Somalia	..
2	Eritrea	..	..	4	Sudan	..

*Source:* IDA and IMF (2009).

Despite debt relief, the need for high levels of financing reversed the falling trend in the external debt burden of Africa in 2009. The continent's total external debt increased to 25.4 per cent of GDP in 2009 after falling from 62.6 per cent in 2001 to 22.4 per cent in 2008. Similarly, external debt as a percentage of exports of goods and services fell from as high as 182.9 per cent in 2001 to 53.4 per cent in 2008 before rising to 80.3 per cent in 2009.

The SSA total external debt as a percentage of GDP and exports of goods and services declined from 68.4 per cent and 203.6 per cent in 2001 to 24.5 per cent and 61.3 per cent in 2008 and then picked up to 27.9 per cent and 91.9 per cent in 2009, respectively. The increase in the debt ratios in 2009 was mainly due to lower GDP growth and a fall in exports.

The ratio of debt service to exports of goods and services in Africa and SSA also increased from 12.1 and 12.8 per cent in 2008 to 15.9 per cent and 16.2 per cent in 2009, respectively. However, although the total external debt of Africa increased from \$286.8 billion in 2008 to \$300.6 billion in 2009, its debt service payments declined from \$64.9 billion to \$59.3 billion over the same period, perhaps due to rescheduling of debt services which meant increased debt obligations in the future (table 3.3).

**Table 3.3**  
*Africa's external debt and debt service, 2000-2010*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total external debt (\$US billions)</b>											
Africa	284.3	274.6	280.4	304.6	321.0	291.0	252.9	283.3	286.8	300.6	324.7
SSA	229.7	223.0	226.9	246.7	263.0	241.3	213.1	240.2	243.5	256.2	278.5
<b>Total external debt (as a % of GDP)</b>											
Africa	62.9	62.6	60.6	52.3	44.5	34.7	26.3	25.6	22.4	25.4	24.9
SSA	67.4	68.4	65.9	56.1	47.8	37.3	28.5	27.9	24.5	27.9	27.6
<b>Total external debt (as % of exports of goods and services)</b>											
Africa	180.1	182.9	180.2	156.0	128.9	92.7	68.5	64.8	53.4	80.3	73.8
SSA	197.5	203.6	199.1	171.1	142.0	104.1	77.7	73.5	61.3	91.9	84.6
<b>Total external debt service (as a % of exports of goods and services)</b>											
Africa	26.9	27.7	25.4	23.0	18.9	21.1	23.8	13.6	12.1	15.9	14.3
SSA	25.5	27.3	22.2	20.4	16.0	20.9	22.8	14.2	12.8	16.2	14.9
<b>Total external debt service (as % of GDP)</b>											
Africa	9.4	9.5	8.5	7.7	6.5	7.9	9.1	5.4	5.1	5.0	4.8
SSA	8.7	9.2	7.3	6.7	5.4	7.5	8.4	5.4	5.1	4.9	4.9
<b>Total external debt service (billions of \$US)</b>											
Africa	42.4	41.5	39.5	44.9	47.1	66.1	87.7	59.7	64.9	59.3	62.9
SSA	29.7	29.9	25.3	29.4	29.6	48.5	62.6	46.4	50.8	45.2	49.1

*Source:* IMF, 2009.

Africa's total debt and debt services ratios may improve with the recovery

**“**  
Debt relief  
should be  
accompanied by  
debt management  
policy to ensure  
long-term debt  
sustainability in  
Africa  
**”**

Notwithstanding the HIPC initiative and MDRI, most African countries have a long way to go in improving delivery of basic economic and social services by preserving peace and stability and improving governance. In this regard, the international community is urged to ensure that eligible countries get full debt relief from all their creditors. There is need to increase creditor participation in the HIPC Programme as debt ratios have begun to deteriorate quickly in several post-completion-point African countries. The emergence of China and India and other non-Paris Club creditors as new sources of loans has also increased external debt accumulation in poor African countries, since these new creditors offer more flexible loan disbursement criteria.

Non-HIPC countries that are facing external debt sustainability problems should be considered for assistance by expanding the scope of the HIPC initiative and MDRI. Since debt relief alone is not sufficient to ensure long-term debt sustainability in African countries, debt management policy should also aim at reducing vulnerability to external shocks, particularly by enhancing the continent's trade capacity.

## **Systemic issues**

The global financial and economic crises highlighted major weaknesses in the global financial architecture. Africa has voiced its reservations and criticisms of the existing international financial architecture and current aid delivery frameworks used by donors and international financial institutions. African countries are concerned about the fact that they are not represented in key forums where important decisions that affect their economies are made.

There has been no major attempt to increase the voice of African countries in decision-making by the IMF and the World Bank. In fact, due to an ad hoc quota increase for China, Korea, Mexico and Turkey in 2006, the relative share of African countries and hence their voice and influence in decision-making at the IMF has declined.

The re-design of the global financial architecture provides an opportunity to address these concerns. Africa would like to participate in the Financial Stability Forum and to have increased representation on the Boards of IMF and the World Bank. There is also need for the continent to have permanent representation in the G-20 in addition to South Africa which is there as an emerging economy.

Several measures and initiatives have been taken at the national, regional and international levels to address the adverse effects of the recent global financial and economic crisis on Africa. These measures have included a range of activities to enhance the availability of resources for development through promotion of domes-

tic resource mobilization, efforts to enhance intra-Africa trade and regional integration, avoidance of trade restrictions, establishment of financing facilities at AfDB for emergencies, trade finance and provision of technical assistance and consensus-building support by ECA, AfDB and AUC to improve coordination and to ensure that African concerns are adequately voiced in international forums. The G-20, at its April 2009 Summit, requested multilateral development banks to provide additional trade-financing support.

*Africa needs to strengthen its participation in key meetings where important decisions that affect its economies are made*

### 3.3 Climate change in Africa: Copenhagen outcomes and implications

The scientific evidence that climate change is a serious and urgent issue is compelling. This is supported by the Fourth Assessment Report (AR4) of the Intergovernmental Panel on Climate Change (IPCC), which provides a broad and confident assessment of the relationship between observed warming and impacts (IPCC, 2007a). Scientists estimate that Africa, which contributes a negligible amount of greenhouse gas emissions (less than 4 per cent), is likely to experience higher temperature increases, changing rainfall patterns, rising sea levels, and increased climate variability due to its proximity to the equator.

Africa is particularly vulnerable to climate variability and change. In addition to its geographical location, it relies on local ecological resources, and faces existing stresses on health and well-being and limited financial, institutional and human resources. These factors severely limit the continent's capacity to adapt to climate change (IPCC, 2007b; IISD and Ministry of Foreign Affairs of Denmark, 2007).

The impacts of climate change have far-reaching implications for economic and social development, for production and consumption patterns and thus, for employment, incomes and poverty reduction (UNEP et al, 2008). The impacts are particularly high for the poor who tend to live in environments that are most susceptible to droughts, floods and other extreme weather conditions. Consequently, climate change could severely undermine their growth and development prospects, thereby slowing progress towards sustainable development. Nonetheless, the response to climate change provides an opportunity to pursue a sustainable development path by catalyzing a shift towards clean development and green, low-carbon economies that could generate much needed jobs.

### **3.3.1 Economic impact of climate change in the region**

**Africa will  
be adversely  
affected by  
climate change**

The economies of most African countries rely heavily on climate-sensitive sectors such as agriculture, fisheries, forestry, other natural resources and tourism. The IPCC Fourth Assessment Report and other major reports point to some of the current and projected impacts of climate change on Africa's growth and development.

Agriculture, which is the backbone of the African rural economy account for approximately 50 per cent of Africa's total exports and 21 per cent of its GDP, is particularly at risk to climate change impacts. Projections are that there will be reduction of yields from rain-fed agriculture by up to 50 per cent in many African countries (IPCC, 2007c). A reduction in land suitable for rain-fed agriculture and crop production is also expected by the 2080s. By the 2080s, without effective interventions, the number of undernourished people will increase by as much as 50 million to reach approximately 240 million.

Biodiversity sustains and is fundamentally dependent on ecosystems. Current estimates indicate that, by 2085, between 25 per cent and over 40 per cent of species' habitats could be lost, while 80 to over 90 per cent of species-suitable habitats could decrease in size or shift in Africa due to climate change. This spells doom for millions of people, whose livelihoods are associated with biodiversity resources, including the four hundred million Africans -- two-thirds of the people in SSA -- who rely on products from forests.

As a result of climate change, up to 250 million people in Africa will be exposed to increased water stress by 2020. This figure will rise to between 350-600 million by the 2050s, especially in North and Southern Africa. This water stress will have dire consequences on agriculture, hydroelectricity generation and industrialization in the region. The frequency and severity of, and areas affected by floods and drought are projected to increase. Some African countries are already experiencing semi-arid conditions, which could affect agricultural production and lead to reduction of yields by 50 per cent and of crop net revenues by 90 per cent by 2020 and 2100, respectively. Projections are that by 2080, North Africa, West Africa and Southern Africa will be three of the world's five regions most at risk from flooding (IPCC, 2007c).

Sea-level rise resulting from climate change will affect low-lying coastal areas with large populations in Africa, further degrading mangroves and coral reefs and threatening human health, infrastructure, fisheries, biodiversity and tourism industries. A large percentage of Africa's ever growing population is projected to be living in coastal cities where flooding will be more frequent and intense. It is projected that 23.5 million people could be affected by sea-level rise of one metre. In Egypt for example, a 50 cm rise in sea level is expected to displace more than 1.5 million

people and destroy 214,000 jobs in the coastal area between Alexandria and Port Said, costing more than \$35 billion (UN-HABITAT, 2008).

Climate change will increase Africa's health burden, which is already higher than in any other region of the world. This is mostly evidenced in the case of malaria which constitutes the major cause of loss of human life in Africa. Shifts in malaria exposure and transmission zones due to climate change are foreseen. Overall, climate change is expected to expose 90 million more people in Africa to malaria by 2030 (World Bank, 2009b).

A combination of reduced water flows to major hydropower dams and worsening depletion of biomass energy resources resulting from climate change could seriously compound the already dire state of energy availability and accessibility and further impede industrial development throughout Africa.

It is now increasingly recognized that the nature and extent of climate change will not only hamper human development, but also pose a major threat to human security at all levels. The massive migrations resulting from climate change could spark violent conflicts for access to and control of key resources such as land and water, and further fuel international out-migration. In particular, all major African rivers crossing national boundaries pose the threat of potential conflicts over water resources. A recent study indicated that climate change concerns, if not addressed in a planned manner, could increase the likelihood of civil conflict in Africa by 54 per cent over the coming two decades.

### **3.3.2 The cost of climate change adaptation and mitigation in Africa**

Depending on the degree of warming, the cost of adaptation to climate change in Africa could be as much as 5 to 10 per cent of the entire continent's GDP (IPCC, 2007b). Estimates are that for Africa, a mean average global temperature of 1.5°C by just after 2040 will result in economic costs equivalent to 1.7 per cent of Africa's GDP (PACJA, 2009). Then, as the mean temperature rises to 2.2°C by 2060, economic costs will increase to the equivalent of 3.4 per cent of Africa's GDP. By the end of the century, with a mean temperature rise of 4.1°C, the economic costs are projected to be just below 10 per cent of the continent's GDP. Therefore, the higher the temperature rise relative to the pre-industrial period, the higher the cost of adaptation.

According to World Bank estimates, the average annual cost of adaptation for developing countries is around \$75 to \$90 billion over the coming 40 years, 2010-2050 (see table 3.4). In particular, SSA needs on average \$18.1 billion per year to cover

*Africa risks an intensification of civil conflicts if its concerns over climate change are not addressed*

**The cost of mitigating the impact of climate change on Africa should include both direct and ancillary costs**

adaptation costs up to 2025, the third highest figure after East Asia and Pacific (\$25 billion) and Latin America and Caribbean (\$21 billion). The table also reveals that adaptation costs as a share of GDP will decline over time in all regions, implying that as countries grow, they have the potential to better adapt to the impacts of climate change. SSA has the highest adaptation costs as a share of GDP mainly because of low GDP growth. Thus, boosting economic growth is imperative for enabling adequate resource allocation to enhanced adaptation capacity.

**Table 3.4**

*Total annual costs of adaptations for all sectors, by regions in absolute terms and as a share of GDP, 2010-2050*

	2010-2019	2020-2029	2030-2039	2040-2049
<b>Total annual costs of adaptations, \$US billions</b>				
East Asia & Pacific	22.7	26.7	23.3	27.3
Europe & Central Asia	6.5	7.8	10.8	12.7
Latin America & Caribbean	18.9	22.7	20.7	23.7
Middle East & North Africa	1.9	2.0	3.0	5.0
South Asia	10.1	12.7	13.5	14.3
Sub-Saharan Africa	12.8	17.2	19.2	23.2
Total	72.9	89.1	90.1	106.2
<b>Total costs of adaptations as a share of GDP</b>				
East Asia & Pacific	0.19	0.15	0.09	0.08
Europe & Central Asia	0.11	0.11	0.12	0.11
Latin America & Caribbean	0.30	0.27	0.19	0.16
Middle East & North Africa	0.08	0.06	0.07	0.08
South Asia	0.20	0.16	0.12	0.09
Sub-Saharan Africa	0.70	0.68	0.55	0.49
Total	0.22	0.19	0.14	0.12

**Source:** World Bank, 2009b.

**Note:** Based on National Centre for Atmospheric Research (NCAR, wetter scenario).

Infrastructure, coastal zones and water supply are the three sectors that absorb the highest adaptation costs across the globe (World Bank, 2009b). Compared to other regions of the world, the adaptation cost for water supply and flood management is highest in SSA. The agriculture sector accounts for the second highest adaptation cost. The cost for infrastructure is estimated to be between \$1.1 and \$6 billion per year during 2010-2050.

The adaptation cost in the health sector in developing countries has been estimated at between \$4 and \$12 billion (UNFCCC, 2007). This represents the costs of preventing additional cases of malnutrition, malaria and diarrhoea due to climate change by 2030. The additional investment needed for the infrastructure sector in Africa is between \$22 and \$371 million (only 0.2 per cent of the global total). For developing Asia, the estimates are between \$1.9 and \$32.4 billion. The adaptation costs are

clearly considerable and cannot be met from Africa's own limited resources. Beyond its own resources and normal ODA, the continent will need significant additional resources, provided in a more predictable and sustainable manner, in order to effectively adapt to climate change.

Mitigation is also important and should go hand in hand with adaptation, because, no matter the level of adaptation, gains made could be eroded if emissions continue unabated. More studies are needed to provide a good estimate of climate change mitigation costs in Africa. However, there is convergence in recent cost estimates for developing countries to the tune of around \$100 to \$200 billion.

### **3.3.3 Financing climate change adaptation and mitigation**

There has been a proliferation of new climate-related funding initiatives covering both adaptation and mitigation that could be regrouped by their sources of funding: initiatives funded by international public contributions which cover the majority of existing mechanisms and those that rely on market-based carbon finance, or by their governance structure with funds coordinated under the authority of the UNFCCC/Kyoto Protocol (informally referred to as Convention Funds); and those that are either managed directly by the funding bilateral agencies or administered by the World Bank and other multilateral agencies, also known as non-Convention Funding initiatives (APF, 2009).

However, almost all international public funds rely on voluntary contributions and will not raise sufficient financial flows. Overall, less than 15 per cent of the pledged funds have actually been disbursed. Of the funds actually disbursed, Africa has received less than 12 per cent in the last four years.

The Clean Development Mechanism (CDM) was established under the Kyoto Protocol and designed to assist Annex I Parties comply with emission reduction commitments and to foster sustainable development in developing countries. As of end 2007, proceeds from the sale of emission credits from CDM projects amounted to \$7.4 billion. However, only 17 out of 1186 CDM projects are located in SSA, most of which (14 out of 17) were located in South Africa (IISD, 2008, IFPRI, 2008).

The CDM is currently inadequate as an investment vehicle and mitigation tool for Africa. Stricter technical and procedural requirements for such projects have diverted many small project developers to the voluntary carbon market, the transactions value of which grew by 240 per cent in 2007 to \$331 million (APF, 2009). However, recent information shows an encouraging upward trend in the number of new CDM projects. As of April 2009, 23 African countries had submitted a total of 102 CDM projects in the project pipeline (APF, 2009).

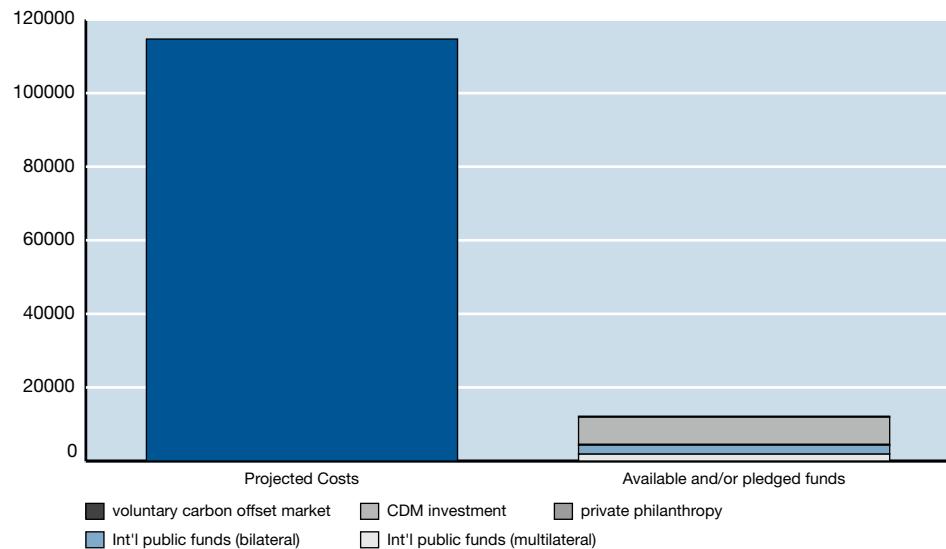
*“ Climate change mitigation and adaptation efforts should go hand in hand”*

More needs  
 to be done to  
 increase resource  
 mobilization for  
 climate change  
 mitigation and  
 adaptation

A huge gap remains between the financial resources needed and available funding for climate change (figure 3.6). This funding gap prompted a number of proposals by Parties to the UNFCCC on raising financial resources to address climate change in developing countries. These proposals aim to generate funds through action in the carbon market, carbon or international travel-related taxes, or from public funds. In its submission to the UNFCCC Secretariat, the African Group of Negotiators proposed that developed country Parties should commit at least 1.5 per cent of their global GDP to support and enable adaptation and mitigation actions in developing countries.

The Copenhagen Accord, the main outcome of the recently concluded Fifteenth Conference of Parties to the UNFCCC (COP-15), notes the collective commitment by developed countries to provide new and additional resources to enable developing countries to undertake adaptation and mitigation actions to the tune of \$30 billion for the 2010-2012 period and \$100 billion a year by 2020.

**Figure 3.6**  
*Projected and available funds (\$US)*



Sources: ECA, OECD/APF (2009) adapted from [www.climatefundsupdate.org](http://www.climatefundsupdate.org), Capoor and Ambrosi (2008), Design to Win (2007).

### 3.3.4 Opportunities for green growth and jobs in the response to climate change

Making economic growth and development compatible with stabilizing climate and with a sustainable environmental footprint will require a drastic shift towards

clean development and green, low-carbon economies worldwide. This will require a second great transformation of economies and societies, as far reaching as the first transformation brought about by the Industrial Revolution (UNEP et al, 2008). However, the rationale for green growth and clean development has mostly been presented as a win-win situation for the environment and for economic development. Relatively little and superficial attention has been paid to the social dimensions of sustainable development, in particular to the implications for employment and for decent work.

Notwithstanding, the concept of green jobs is gaining currency in policy and research cycles. Green jobs reduce the environmental impact of enterprises and economic sectors, ultimately to levels that are sustainable. Green jobs are found in many sectors of the economy from energy supply to recycling and from agriculture and construction to transportation. They help to cut the consumption of energy, raw materials and water through high-efficiency strategies, to de-carbonize the economy and reduce greenhouse gas emissions, to minimize or avoid altogether all forms of waste and pollution, and to protect and restore ecosystems and biodiversity (UNEP et al, 2008). According to ILO (2008), if a price was imposed on CO<sub>2</sub> emissions and if the resulting revenues were used to cut labour taxes, employment would rise by 0.5 per cent by 2014. This is equivalent to over 14.3 million new jobs for the world economy as a whole.

Given Africa's level of development, it is imperative that the region records strong growth to enable it to meet its development objectives. Yet, this low level of development provides Africa with the opportunity to pursue a sustainable development path by embracing green/low carbon growth. The greening of the economy in Africa presents a major opportunity to start new businesses, develop new markets and lower energy costs. It can strengthen an investor's business license to operate, generating positive attitudes towards the activities and investments of the firm among customers and local community alike.

This calls for integrating climate change adaptation and mitigation actions into development policies and practices. Sectors with considerable potential for green growth in Africa include energy, forestry agriculture and water. The development and implementation of National Adaptation Programmes of Action (NAPAs) and Nationally Appropriate Mitigation Actions (NAMAs) present opportunities for green growth.

### **3.3.5 Copenhagen outcomes and implications for Africa**

The United Nations Conference on Climate Change took place in Copenhagen, Denmark from 7 to 19 December 2009. The Conference, which was attended by

*“ Climate change adaptation and mitigation require coordinated actions to improve the technological capacity of Africa ”*

*Copenhagen  
2009 outcome  
is a step in the  
right direction*

nearly 130 leaders, produced the Copenhagen Accord as its main outcome. Parties only took note of the Accord and did not formally adopt it, as they were divided on whether the Accord provided a sound basis for negotiating a legally binding agreement in 2010 (IISD, 2009). Key commitments contained in the Accord mainly relate to climate change financing and emissions reduction obligations and actions.

The Accord established four new bodies to advance the ongoing work on climate change. Nevertheless, while some criticized it as weak, others accepted it as a compromise in the face of too many diverging interests. The concerns expressed by developing countries included: its lack of scientific basis; lack of reference to binding commitments in the second commitment period; lack of guarantees on the continued existence of the Kyoto Protocol; and failure to agree to limit temperature increase to below 1.5 degrees centigrade.

Africa participated effectively in all the international climate change negotiations that led to the Copenhagen Conference (box 3.1). At Copenhagen, the Africa group effectively articulated its concerns and interests and proved to be a force to be reckoned with. Given that the negotiations will continue and that an internationally legally binding agreement is expected to be entered into in 2010, the continent should draw lessons from the Conference and further strengthen the coordination and consultation mechanisms established to develop a Common African Negotiating Position on Climate Change and a common negotiation strategy. The Conference has amply demonstrated that Africa stands to gain more when it remains united in vision and purpose.

### **Box 3.1**

#### *Consultations and preparations for Copenhagen by African negotiators*

In the build up to the Conference, Africa, with support from its partners, embarked on wide ranging consultations in order to ensure that Africa's concerns, interests and expectations would be adequately reflected in the Copenhagen outcomes. Consultations were held at the level of negotiators, high-level experts, ministers (African Ministerial Conference on the Environment; Africa's Ministers in Charge of Finance, Planning and Economic Development), Heads of State and Government (African Union Summits). These resulted in endorsement of an African Common Position on Climate Change by the Thirteenth Ordinary Summit of the African Union in July 2009. The Summit also established the Conference of African Heads of State and Government on Climate Change (CAHOSCC).

AUC, ECA, AfDB, and the Climate for Development Programme in Africa (Clim-Dev-Africa) endorsed at the highest political level, have important roles to play. Political leadership for the programme has been provided by AUC, which coordinates the regional policy response to, and global negotiations on climate change. In this regard, it is in the process of establishing a Climate Change and Desertification Programmes Coordination Unit.

**African Regional organizations are assisting African countries in climate change negotiations, mitigation, and adaptation**

The ECA-based African Climate Policy Centre (ACPC) is the knowledge-management, policy and project-facilitation arm of the Commission. The AfDB-based and managed ClimDev-Africa Special Fund (CDSF) serves as a channel for demand-led funding of field-level operations by implementing institutions across Africa. Therefore, ClimDev Africa and its entities are uniquely placed to play an important role in accompanying Africa along the road to adoption of a legally binding agreement in 2010. Additionally, the Programme is well placed for helping to shape Africa's policy responses and actions in the post-2012 climate change regime. Their full operation should be ensured as a matter of priority.

Furthermore, under the auspices of the African Ministerial Conference on the Environment (AMCEN), a Comprehensive Framework of African Climate Change Programmes is being developed. The Framework is aimed at ensuring coordination and coherence in implementation and review of climate change initiatives and sustainable development plans in Africa at all levels. The Framework and ClimDev-Africa should be viewed as complementary and mutually supportive.

### 3.4 Conclusions and policy recommendations

The discussion in this chapter underscores the challenges to achieving Africa's growth potential and reducing unemployment and poverty in relation to trade, development financing and climate change. The main conclusions and policy recommendations of the chapter are summarized hereunder.

#### **Developments in international trade and trade negotiations in 2009**

The analyses indicate that the continent's share in world trade is still marginal and its trade portfolio undiversified. This means that the region is not only unable to fully benefit from the globalization process, but is also exposed to global economic shocks due to the pro-cyclical nature of its trade. The intra-African trade that would cushion it from such shocks seems to have stagnated at the low level of 10 per cent, even though there is evidence that in agriculture and manufactured goods, there is a strong base for take-off.

African countries need to continue putting emphasis on diversification and on building productive capacities, including undertaking investments that address infrastructure constraints. Complementing Aft resources with domestic resources in these areas will not only help create competitive economies but will increase capacity for the economies to take advantage of latent potential, including in the services sectors.

*Progress in Doha  
Round necessary  
for Africa to  
meaningfully gain  
from globalization*

Trade negotiations at WTO, whose mandate includes addressing Africa's international trade challenges, remain deadlocked, and their potential for lifting Africa's marginalization continue to wane as the levels of ambition become questionable. The commitment to development issues remain unmatched to what is on offer. The challenging politics of the negotiations ranging from lack of active engagement of major players, failure to translate political signals to action, to the risk of re-sequencing the priority areas of negotiations all point to a challenging year ahead for Africa in the negotiations.

It is important that African countries remain actively engaged in the negotiations and that they undertake relevant technical work in other areas of the negotiations and not just agriculture and NAMA. The African negotiators also need to have an explicit linkage between the WTO negotiations and the EPAs, to ensure coherence and that any gains made in WTO negotiations are reflected in the EPA agreements.

The need for linkage with WTO notwithstanding, failure to address the contentious EPA issues exhaustively continues to create an uncertain environment, especially around the African integration agenda. The progress that is driven by the African RECs and AUC, such as the large COMESA-EAC-SADC FTA and the Minimum Integration Programme (MIP), respectively, may be held back if these contentious EPA issues are not expeditiously resolved. A scaling up of the coordination and harmonization of negotiating positions across Africa is required. The EPA Template that was endorsed by the African Ministers of Trade provides a good basis for this harmonization.

On a more positive note, AfT implementation is making tangible progress in addressing some of Africa's trade challenges. African countries are also clear on their priorities with regards to areas of interventions. Infrastructure, which encompasses trade facilitation, and productive capacity-building are consistent with the priorities that were identified during the first AfT Global Review in 2007 (see UNECA and AUC 2008).

However, in order to benefit optimally from AfT, it is important that the RECs take a lead in ensuring that all means to achieve the regional dimensions are being used. This calls for the RECs to develop or update their regional AfT strategies. The role of the private sector in AfT also needs to be heightened, as the sector is not only a beneficiary but also a potential source of resources, especially through public-private partnerships (PPPs).

## **Development financing**

The global financial and economic crises resulted in reduction of Africa's internal and external sources of financing for development. The continent has been hard hit

by the crises both directly and indirectly. The direct effects have been felt through the financial sector while the indirect impacts were felt through decreased flows of trade, workers' remittances, FDI and ODA. The crises also adversely affected domestic resource mobilization efforts as well as the external debt burden of the region.

The main lesson to be drawn from the impact of the global financial and economic crisis on Africa is the need for African countries to minimize excessive dependence on external sources of development financing by enhancing domestic resource mobilization. Promoting intra-African trade and regional integration, strengthening South-South cooperation to diversify sources of ODA and diversifying exports and trading partners will help to minimize exposure to external shocks from advanced economies. Further, African countries need to liberalize short-term capital flows with caution ensuring that financial systems are well regulated and that foreign currency-denominated debt is limited.

## Climate change

Climate change is a global phenomenon affecting all countries but more so the poor, vulnerable countries of Africa and elsewhere that are least responsible for it. It is affecting all economic sectors and presents unprecedented challenges for the continent, particularly in terms of meeting its sustainable development imperatives, including the MDGs. Indeed, climate change is already eroding decades of development gains made.

In this context, it is imperative that Africa's concerns are heard in the international climate change negotiations and are adequately addressed in the post-2012 international climate change regime. Additionally, it should be recognized that the response to climate change presents opportunities to pursue an informed, sustainable development growth trajectory that simultaneously improves economic growth and creates employment. Regional institutions should play and should be seen to be playing a leadership role in helping the continent to meet the climate change challenges.

The issues need to be integrated into national decision-making so as to reduce the negative effects on resources, livelihoods and the wider economy. Such integration is severely constrained by the present institutional architecture in many African countries, where government coordination mechanisms are not well developed. Efforts should be made to increase coordination across ministries and sectors, and to raise the issues of climate change to a higher level of political priority. Integration could help elevate climate change from being merely an environmental challenge to the developmental challenge it actually is.

*Enhancing  
domestic resource  
mobilization is  
essential for  
African countries  
to minimize  
vulnerability to  
external sources of  
finance*



*Africa should take advantage of the opportunities for green growth provided by the international climate change regime*

African countries should take advantage of the opportunities for green growth and green jobs provided by the international climate change regime. The development and implementation of NAPAs and NAMAs could be leveraged to ensure that such opportunities are utilized optimally. Finance, technology development and transfer and capacity-building are seen as key to such leverage.

The international climate change negotiations are complex and challenging, as the issues under discussions relate to all aspects of development. In order to ensure that Africa continues to participate effectively in the negotiations and to refine its positions for the 2010 negotiations, it should strengthen its coordination and negotiation structures in light of the lessons learned at Copenhagen. In addition, the role of RECs and other regional and regional bodies in addressing climate change challenges on the continent, particularly in the ongoing negotiations, should be recognized and used as leverage.

Africa should continue pushing for more reforms in the current governance system for climate change financing and for establishment of a new system under the Community of Practice (CoP) that operates within the principles of the Convention, in order to ensure ready access to much needed funds. Pending this reform, African countries should be proactive in meeting the requirements established under existing public funds, for example, the Resource Allocation Framework under the Global Environment Facility (GEF). However, a critical issue is their ability to use these new funds effectively. In this context, countries should build institutional, technical and managerial capacities in order to access and absorb such funds effectively.

There should be concerted efforts to better integrate Africa into global carbon markets. Simplification of the CDM rules should be an important first step. This should include rules for determining baselines, monitoring carbon emissions, enforcing offsets and broadening the range of eligible projects to avoid deforestation and soil carbon sequestration. These efforts should be complemented with strengthened institutional and technical capacities for better engagement with the CDM process.

ClimDev-Africa and its entities should be made fully operational as soon as possible to ensure that African negotiators at all levels get the full support they need to articulate and defend the continent's concerns and interests. Furthermore, ClimDev and its entities should support the integration of climate change concerns into policy development and implementation, with practical projects on the ground that support climate change actions, particularly adaptation.

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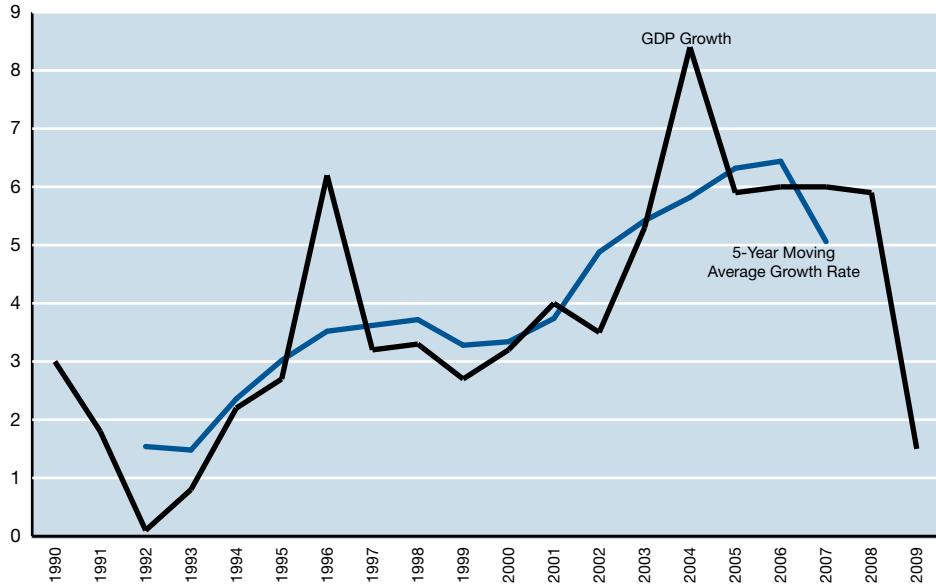
# 4

## The critical drivers and enablers of high levels of sustainable growth

Africa has achieved a relatively high economic growth rate in the last two decades, with the continent-wide average GDP growth rate reaching 6.1 per cent during the 2004-2007 period, from a low of about 0 per cent in 1992 (figure 4.1). Although there was wide variation in growth rates across the continent, this growth rate was widespread. For example, between 2004 and 2007, the average growth rates in North, East, West, Central and Southern Africa were 5.6, 7.7, 5.5, 10.5 and 5.0 per cent respectively; the average growth rate for oil exporters was 7.0 per cent, while for fragile States it was 3.5 per cent.

*Africa's growth over the past decade remained below the 7 per cent required to meet the MDGs*

**Figure 4.1**  
*Annual and five-year moving average of GDP growth (%)*



*Source:* ECA calculations based on UN-DESA, 2009.

Although impressive by Africa's historical standards, this growth rate is lower than the 7 per cent required for meeting the MDGs. In addition, it was not accompanied by employment growth. Unemployment rates remained stubbornly high, in double digits. Although unemployment data in Africa are hard to come by and what are available may be unreliable, available data suggest that unemployment rates averaged

*The recent global crisis exacerbated the already dire employment situation in Africa*

12.2 per cent between 1994 and 1997, 15.5 per cent in 2000-2001 and 14.2 per cent in 2005-2006. Youth unemployment rates were 25.1 and 26.7 per cent in the 1994-1999 and 2000-2006 periods respectively (WDI, 2009). High unemployment rates were not limited to “unskilled and uneducated” workers; during the 2005-2006 period, unemployment rates among secondary school and university graduates were 27 and 11 per cent respectively (ILO, 2008).

The unemployment statistics do not accurately reflect the extent of labour underutilization in Africa since they do not reflect discouraged workers, underemployed workers, seasonally unemployed workers and those in vulnerable employment situations. High unemployment has several negative consequences. It reflects underutilization of productive capacity and hence, slows economic growth, reduces incentives and the ability to invest in human capital, leads to skill loss, and increases poverty and income inequality. As a result, domestic markets shrink, reducing the scope for economies of scale in production. Finally, high unemployment poses a serious threat to social stability. Frustration is likely to make the unemployed the foot soldiers of a violent revolution. They have a grievance; all that is needed to spark violence is a charismatic leader.

The recent global financial crisis threatens to slow economic growth drastically and exacerbate the already dire employment situation in Africa. The average economic growth rate fell from 6.1 per cent in 2004-2007 to 1.6 per cent in 2009 (figure 4.1). Prior to resumption of growth in the early twenty-first century, African economic experience had been characterized by slow capital accumulation, lack of total factor productivity (TFP) growth, limited structural transformation, episodic growth tied to commodity and export price booms, growing disparities in incomes compared with other parts of the world, and a diversity of experience that made it difficult to generalize (Ndulu and O’Connell, 2008). TFP is technology’s contribution to output expansion and is therefore a measure of technical progress in a country. Although robust growth in the last decade has given reason for optimism, the impact of the current global crisis gives rise to fears that the nature of African economic growth has not changed.

The challenge facing African countries is how to develop policy responses to counter the effects of the current global crisis and lay the foundations for broad-based, robust and sustainable growth that generates employment and reduces poverty for the majority of Africans. These policies may be different from those pursued in the past as they not only have to lead to high growth rates but must also lead to rapid and sustained employment generation as well as to structural changes in African economies, in order to overcome the episodic growth tied to commodity price booms.

Policymakers must understand the key drivers of economic growth in Africa, how they have been affected by the current financial crisis and what policy options are available to counter these effects in the short run while promoting employment-

intensive, sustainable growth in the long run. This chapter is designed to assist in such understanding. The main message is that African countries should use expansionary fiscal, monetary and exchange rate policies for accumulation, especially of infrastructure and human capital, to counter the effects of the global crisis in the short run. The objective of short-term countercyclical policy is recovery from the current economic downturn, while long-term policies are intended to achieve the structural transformation of African economies, a necessary condition for long-term, high-employment, robust economic growth. Long-term strategies may involve increased domestic resource mobilization, increased TFP growth through technology transfers and credible research and development efforts, institutional reforms, and expanded market access through regional integration. If economic growth is to generate employment, then policies to shift “growth poles” from natural resource extraction to other large sectors of the economy are required.

The rest of the chapter is organized as follows. Section 4.1 highlights drivers of economic growth generally. Section 4.2 discusses the main drivers of African economic growth since 1990. This is followed by a discussion of the impacts of the current financial crisis on growth drivers in Africa and what policy options are available. The final section discusses possible policy options for Africa to counter the negative effects of the financial crisis and generate sustained economic growth in view of the current economic crisis.

*Economic diversification away from the natural resources sector is critical for employment generation*

## 4.1 Drivers of economic growth

### 4.1.1 Determinants of economic growth

Modern growth theory suggests two fundamental sources of economic growth: the rate of factor accumulation and TFP growth. Indeed, some authors (Aghion and Howitt, 2009) argue that the source of all economic growth is TFP. Factor accumulation includes, but is not limited to, investment in physical and human capital as well as increases in the labour force. Increases in the quantities of inputs, assuming no increase in TFP, will increase output at the rate of factor accumulation, while increases in TFP without increases in factor accumulation will result in the economy growing at the rate of growth of TFP. Per capita income grows at the rate of per capita accumulation and TFP growth.

The rate of factor accumulation depends on the rate of savings in an economy. Societies that save a higher proportion of their incomes are able to accumulate more and therefore grow at a faster pace than those that do not save a large proportion of their incomes. Compared to South Asian countries, which on average save and invest

**Growth requires more accumulation as well as effective utilization of the accumulated factors**

about 35 per cent of GDP and educate a relatively large proportion of their young people for longer periods of time, African countries save an average of under 20 per cent of GDP and educate a relatively small proportion of young people. In the short to medium run, countries can accumulate at a faster pace than they save through “transfers” from other countries in the form of loans, aid or foreign investment.

TFP growth stems from generation of new ideas and better ways of doing things. It requires experimentation with new ideas and taking risks. It depends not only on the quantity and quality of factor accumulation but also on the environment and institutions that allow factors to be efficiently allocated. These may include physical infrastructure and social institutions, as well as markets that allow for inter-temporal and inter-sectoral resource allocation. A stable macroeconomic and political environment devoid of civil strife, in which prices reflect scarcity values, may be necessary for TFP growth. Such growth may also be enhanced by specialization and economies of scale provided by access to large markets

What is important for growth is not mere accumulation but effective utilization of accumulated factors. Factor accumulation theoretically depends on expected returns to factors, which determine their employment and productivity; in turn, these depend on the level and quality of factor accumulation. For example, new technologies are often embodied in new machines, and new employees generally tend to be more educated and healthier and are therefore likely to be more productive than those they replace. Because of this symbiotic relationship, it is difficult in practice to separate the effects of accumulation from the effects of TFP when analysing the causes of growth, as the growth accounting literature tries to do.

#### **4.1.2 Empirical verification of sources of economic growth**

Empirical verification of the sources of growth has followed one of three methodologies: growth accounting, growth regressions and growth diagnostics. These are briefly mentioned below.

Growth accounting tries to find out how much each factor of production and the TFP contribute to economic growth in each period. The growth accounting framework starts with the constant returns-to-scale production function and the premise that aggregate output depends on the quantity and quality of productive inputs that a nation possesses and on the productivity of these inputs. The growth of output then depends on the rate of growth of the quantities and quality of, as well as the TFP of, these inputs. A few growth accounting studies conducted using African data (Tahari *et al.* 2004 (table 4.1), Ndulu and O’Connell, 2008) conclude that factor accumulation accounts for the entire growth rate in Africa, with no contribution from TFP growth.

**Table 4.1**  
*Growth accounting for sub-Saharan Africa, 1960-2002*

	Real GDP growth (per cent)	Contribution of:				Real GDP growth (per cent)	Contribution of:		
		Capital	Labour	TFP			Capital	Labour	TFP
Sub-Saharan Africa	3.2	1.8	1.5	0.0	Lesotho	3.4	2.5	1.1	-0.1
Angola	2.3	2.1	1.6	-1.4	Liberia	1.9	0.5	1.5	-0.1
Benin	3.3	1.3	1.2	0.7	Madagascar	1.2	0.8	1.6	-1.2
Botswana	7.5	3.8	1.7	2.0	Malawi	3.5	2.1	1.4	0.0
Burkina Faso	2.7	1.5	1.0	0.1	Mali	2.9	1.3	1.2	0.4
Burundi	2.7	1.7	1.2	-0.2	Mauritius	5.3	2.5	1.6	1.2
Cameroon	3.8	1.9	1.3	0.6	Mozambique	3.6	2.3	1.0	0.3
Cape Verde	5.5	3.0	2.1	0.4	Namibia	1.9	1.5	1.5	-1.1
Central Afr. Rep.	2.2	0.9	1.0	0.3	Niger	2.6	1.0	1.7	-0.1
Chad	4.1	2.0	1.5	0.6	Nigeria	3.1	1.7	1.6	-0.2
Comoros	1.9	1.3	1.6	-0.9	Rwanda	2.5	1.1	1.8	-0.4
Congo, Rep. of	4.0	2.1	1.6	0.3	Sao Tomé and Príncipe	0.4	2.0	1.5	-3.0
Congo, Dem. Rep. of	0.2	1.1	1.6	-2.4	Senegal	2.1	1.0	1.5	-0.5
Côte d'Ivoire	3.6	1.0	2.4	0.2	Seychelles	3.2	2.9	0.8	-0.5
Equatorial Guinea	11.6	5.0	2.0	4.6	Sierra Leone	-2.6	-0.4	1.2	-3.5
Ethiopia	2.8	1.3	1.5	0.0	South Africa	3.1	1.5	1.4	0.1
Gabon	2.7	1.9	1.1	-0.2	Swaziland	4.6	1.6	1.6	1.4
Gambia	4.9	2.3	1.9	0.7	Tanzania	3.3	1.8	1.8	-0.3
Ghana	2.6	1.1	1.5	-0.1	Togo	3.2	1.6	1.5	0.1
Guinea	4.0	2.2	1.3	0.5	Uganda	5.1	0.7	1.5	2.8
Guinea-Bissau	2.9	2.3	1.2	-0.7	Zambia	2.3	1.7	1.6	-1.0
Kenya	4.0	2.1	1.9	0.0	Zimbabwe	2.6	1.6	1.8	-0.7

**Source:** Tahari et al (2004). Not included in the analysis: Djibouti, Eritrea, Mauritania, Somalia and Sudan, Algeria, Egypt, Libya, Morocco and Tunisia.

**Note:** Capital refers to physical capital. The capital share (*alpha*) used was 0.4, while the initial capital-output ratio was 1.5 (providing a first estimate for the capital stock). The depreciation rate was set at 6 per cent.

Despite its intuitive appeal, growth accounting has its weaknesses. Among these are the following: increasing returns to scale as found in endogenous growth models is inconsistent with constant returns to justify the use of income shares as the weights for input contributions; decomposition is sensitive to the factors considered; measurement error due to poor or imprecise data is captured as TFP; the components may not be independent, complicating the interpretation of results; and decomposition provides limited policy-relevant insights.

A second popular approach to the determinants of growth is growth regression which uses cross-country or panel data and regression to identify major growth factors. Like growth accounting, it starts with an aggregate production function which is augmented with other “conditioning variables” to possibly capture the effects of TFP. The production function is then converted to growth rate before estimation. Several studies, including Ndulu and O’Connell (2008 (table 4.2)), Calamists *et*

*al.* (1999) and Atardi and Sala-i-Martin (2004), use growth regression to study the determinants of growth in Africa. Though there are disagreements on which set of conditioning variables is important, an overwhelming majority of these studies conclude that the accumulation of human and physical capital are important determinants of income growth in Africa.

**Table 4.2**  
*Pooled conditional regressions (growth of real GDP per capita)*

Variables	1	2	3	4
Initial real GDP per capita	-1.363 ***	-1.259 ***	-1.115 ***	-0.740 **
Initial years of life expectancy	0.065 **	0.085 ***	0.064 **	0.049 *
Age dependency ratio	-0.044 ***	-0.043 ***	-0.046 ***	-0.042 ***
Growth of potential labour force participation	0.655 ***	0.965 ***	0.924 ***	1.009 ***
Landlocked	-0.469	0.010	0.179	0.662
Trading partner growth	0.551 ***	0.378 **	0.304 *	0.416 *
Income effect of terms-of-trade improvements	0.032	0.036 **	0.043 ***	0.049 ***
Political instability	-0.292 ***	-0.240 ***	-0.257 ***	-0.212 ***
Inflation rate (< 500)	-0.010 **	-0.016 **	-0.016 **	-0.015 **
Black market premium (< 500 )	-0.014 ***	-0.013 ***	-0.012 **	-0.014 ***
Overvaluation index	--	--	-0.007 **	-0.009 **
Unproductive government consumption/GDP	-0.099 ***	--	--	--
Total government consumption/GDP	--	-0.031 **	-0.024	-0.024
Logarithm of M2/GDP ratio	--	--	--	0.173 **
Constant	11.575 ***	9.014 ***	9.908 ***	6.601 **
Observations	495	676	592	415
R-squared	0.356	0.339	0.357	0.357
F-stat	12.441	13.214	14.012	20.268
Prob > F	0.000	0.000	0.000	0.000

**Source:** Ndulu and O'Connell (2008). Table 1.8.

**Note:** Unbalanced panel covering the period 1960-2004. Observations correspond to five-year averages.

\* Significant at 10 per cent.

\*\* Significant at 5 per cent.

\*\*\* Significant at 1 per cent.

Like growth accounting, the growth regression approach has its own weaknesses that include reverse causality, omitted variables bias and low explanatory power, measurement error, parameter heterogeneity, marginal versus threshold effects and model uncertainty.

**Table 4.3**  
*Growth diagnostics in Africa*

Causes of low levels of private investment	Private return to domestic investment Social returns to investment	Risks to private appropriability of returns	Cost of financing domestic investment
Egypt *	Low private returns to education suggest that there are no skills bottlenecks	Risk of expropriation through macroeconomic instability	High (shadow price of finance), due to inefficiency of financial intermediation (real lending rate and access to finance)
Kenya	Low, owing to high costs of transport and energy. Scarcity of human capital and R&D not binding	High, owing to corruption and crime	Interest rates are relatively low, but access to finance is limited and costs are high for certain categories of borrowers (e.g. rural and small entrepreneurs)
Madagascar *	Low, owing to limited infrastructure and lack of education and training	Low appropriability due to arbitrary government decision-making and macroeconomic instability	Limited access to finance due to poorly developed financial sector
Morocco *	Returns to education are relatively low	Low productive diversification due to labour rigidities, high taxes on firms and on the hiring of human capital, (fixed-peg) exchange rate regime and anti-export bias. Market failures related to coordination, information and learning externalities	Domestic financing not a binding constraint, but small and medium-sized enterprises face important constraints in access to financing
Tanzania *	Low, owing to lack of qualified human resources and underdeveloped road infrastructure	High, owing to corruption (but crime low)	High, despite low real returns on savings. Access to credit limited to large and well-established companies in major urban areas, partly owing to collateral requirements
Uganda	Not low, but emerging skills gaps, and high energy (electricity) and indirect costs (e.g. transport costs as a result of the country's landlocked position)	Coordination failures regarding infrastructure gaps	High, owing to high lending rates (despite low rates on deposits). Small firms are credit-constrained. Financial intermediation can be a binding constraint if infrastructure constraints are removed

**Source:** ECA compilation from individual case studies.

**Note:** Binding constraints in bold.

\* Original World Bank case study countries.

Neither growth accounting nor the growth regression approach identifies the binding constraint to growth in a country and both provide only average responses; hence, they provide no guide to policy in a particular country. Hausman *et al.* (2008) have introduced the growth diagnostics approach. This approach uses extensive assessment tools to analyse the structure of an economy in order to identify the binding constraints to growth in that economy and provide a guide to policy. In this framework, results from any particular country cannot be generalized, and therefore, policy from this approach is customized. Results from the application of growth diagnostics to some African countries are presented in table 4.3. It is interesting to note that the constraints identified in most of the countries relate to either factor scarcity or resources required for the acquisition of the missing or limited production factors.

Like the first two approaches, growth diagnostics has its own weaknesses that include the neglect of dynamics of constraints, the sequencing of reforms, and the fact that data limitations on shadow prices undermine any assessment of binding constraints.

Despite the differences in approach, all three methods lead to the conclusion that factor accumulation is an important determinant of economic growth in Africa. In addition to the studies presented in table 4.3 above, Atardi and Sala-i-Martin (2004), for example, conclude that if African countries had primary school enrolment rates equal to those of OECD countries, their per capita income growth rate would have been 2.5 points higher than that recorded during the 1970 to 2000 period. The discussion above suggests that a country's economic growth rate is potentially influenced by accumulation, which can be facilitated by increased domestic savings or, in the short run, transfers from other countries as well as increased TFP growth. Not all drivers of growth will be equally important in all countries. The next subsection discusses the main factors driving economic growth in Africa since 1990.

## 4.2 Drivers of Africa's growth since 1990

Several factors have driven economic growth in Africa since the 1990s. Most of the growth drivers had to do with increased accumulation (mainly physical capital and labour force growth) with a very small role for TFP (Tahari *et al.* 2004). Increased accumulation was made possible by various factors. Among these were increased commodity prices, FDI resulting from increased commodity prices, debt forgiveness, increased aid, increased access to international finance, increased remittances, stable and better management of the macroeconomic environment and, above all, a stable political and institutional environment within which to do business. Because of the heterogeneity of African economies, the importance of various growth drivers

will differ across countries. For example, changes in commodity prices may be more important for natural-resource-rich countries than for their resource-poor counterparts, while changes in remittances may be more important for labour-exporting countries than for those that do not export labour.

#### 4.2.1 Accumulation

The rate of physical capital accumulation in Africa during the 1990-2007 period was rapid and critical for Africa's economic growth; the ratio of gross investment to GDP increased from an average of 19.57 during the 1990-1999 period to 20.22 during the 2000-2007 period (WDI, 2008). Private-sector investment made up about 67 per cent of this investment in the earlier period and remained almost unchanged at 65 per cent in the latter period. Although the share of public-sector investment was modest, it was critical to Africa's growth. Indeed, Foster and Briceno-Garmendia (2010) suggest that about half of the growth achieved in Africa during this period can be attributed to investment in infrastructure. Moreover, because of the low levels of infrastructure development, investment in infrastructure drastically increases the productivity of private capital; hence, the two are complementary.

In spite of the HIV/AIDS epidemic, Africa achieved success in human health and labour force growth during 1990 to 2007. ILO estimates suggest that the labour force in Africa grew by an average of 3 per cent per year between 1990 and 2010 (ILO, LABORSTA, 2009). This growth came from two sources – the natural population growth rate and increased participation rates, especially among women. Given the young age of the population in Africa, the labour force is likely to continue to grow in the foreseeable future. Besides growth in the labour force, there were improvements in health during the period. For example, infant mortality rates decreased from 92 per 1000 in 1990-1997 to 87 in 2000-2007 (WDI, 2008).

In addition to physical capital, Africa accumulated considerable human capital, defined to include education and health, during the period under consideration. Gross primary school enrolment rates increased from 75 per cent at the beginning of the period to 97 per cent at the end of the period; similarly, the gross secondary school enrolment rate increased from 14 per cent to about 29 per cent between 1999 and 2008, while tertiary enrolment ratios rose from 3 per cent in 1990-1997 to 4 per cent in 2000-2007 (WDI, 2008). As a measure of the quality of education, the school life expectancy increased from 4.6 years to 6.1 years during the same period (UNESCO, Institute for Statistics, 2009). The result is a more educated labour force as the proportion of the labour force with secondary and university education increased from 18.07 to 21.62 and 6.8 to 7.2 per cent respectively during the period under consideration.

*Half of the growth achieved in Africa between 1990-2007 can be attributed to investment in infrastructure*

African  
education systems  
often fail to provide  
graduates with  
the skills needed  
for economic  
development

Increased education does not necessarily mean that African education systems are producing graduates with the skills needed for economic development. For example, while about 50 per cent of university students in the Republic of China and Korea major in science, engineering or business, only 20 per cent of African students do so. Furthermore, the methods of instruction in African education systems may not prepare the students for practical problem-solving. In addition, few women major in sciences and engineering, thus depriving them of skills that may be in high demand. Increased resource accumulation is not likely to result in fast economic growth if these resources are not put to work. During the period under consideration, Africa did not fully use its resources, as the unemployment rate remained unusually high and there was evidence of capacity underutilization.

#### 4.2.2. Financing accumulation

Resource accumulation depends upon savings or, in the short term, external financing. Africa financed its accumulation with a mixture of increased domestic savings, foreign borrowing, ODA and other forms of transfers. The average gross domestic savings rate in Africa rose from 12.4 per cent of GDP in the 1990-1999 period to 15.55 per cent in 2000-2007. There is, however, a large difference in the saving rates across countries; high rates for resource-rich countries contrasted with low rates for fragile economies. The increased savings rates resulted mainly from resource rents earned by a few resource-rich countries during the latter part of the period.

Thus, important sources of financing of accumulation in Africa were ODA, other transfers and, to a lesser extent, external loans although the importance of such transfers decreased over time. ODA is generally used to fund vital infrastructure projects as well as human capital investment. In addition, it provides crucial foreign exchange that enables the import of foreign capital and helps to cushion external shocks. Total ODA and the ratio of ODA to GNI decreased until they bottomed out in 1999 and 1997 respectively. Since then, both have rebounded strongly although the recovery has been highly uneven over time. A large part of ODA was for debt forgiveness, which provided African countries both financial and fiscal space to increase accumulation rather than pay debts.

Remittances have become an important source of income in many African economies, and have been used to finance consumption and investment. In 2008, remittances to Africa were estimated at about \$US 40 billion, or about 3 per cent of regional GDP. Although lower than to other regions of the world, remittances to Africa have been growing the fastest, reaching 48 per cent in 2007 (table 4.4). Remittances are likely to play an increasing role in financing investment in Africa.

**Table 4.4**  
*Workers' remittances (\$US millions)*

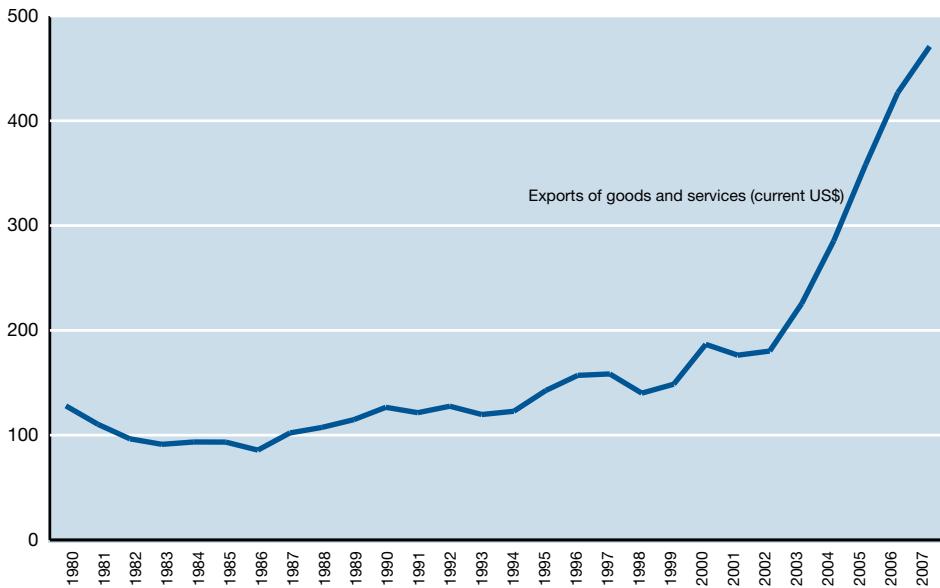
	2002	2003	2004	2005	2006	2007	2008
Remittances (received)	12 948	15 578	19 509	22 481	26 562	36 853	40 118
Remittances (paid)	3 274	3 654	4 027	4 272	4 774	4 774	4 780
Remittances (net)	9 674	11 923	15 482	18 209	21 788	32 080	35 338

*Source:* World Development Indicators (2009).

By far the major source of financing accumulation in Africa has been the dramatic increase in export earnings stemming from world commodity price booms. Indeed, the dramatic rise in GDP growth in Africa at the beginning of the twenty-first century could be directly linked to the equally dramatic increases in the growth of export earnings and commodity price increases (table 4.5 and figure 4.2). Export earnings grew at 18.33 per cent a year during the 2005-2007 period, reaching 36.83 per cent of GDP at the end of the period. The large increases in export earnings allowed resource-rich African countries to use the resource rent to finance accumulation.

“ Commodity revenue can be a major source of financing accumulation in Africa ”

**Figure 4.2**  
*Exports of goods and services (\$US millions)*



*Source:* Africa Development Indicators, World Bank (Online 2009)

**Table 4.5**  
*Some indicators for Africa (1990-2007)*

Year	1990-1994	1995-1999	2000-2004	2005-2007
Output (GDP) growth	1.30	3.69	4.09	5.57
Per capita output (GDP) growth	-1.34	1.12	1.65	3.19
Annual rate of growth in the value of exports	1.53	4.34	14.79	18.33
Intra-African exports (per cent of total exports)	8.10	10.37	9.51	8.99
Exports to South Africa from the rest of Africa (per cent of total exports)	0.43	0.8	1.02	1.36
Exports to China (per cent of total exports)	0.49	1.14	3.80	8.64
Exports to India (per cent of total exports)	1.21	2.53	2.64	2.90
Exports to Brazil (per cent of total exports)	0.87	1.73	2.29	2.95
Exports to advanced economies (per cent of total exports)	70.79	68.83	68.43	67.86
Gross domestic investment (per cent of GDP)	19.68	19.57	19.38	20.56
Public sector investment rate	6.76	6.38	6.98	6.94
Private sector investment rate	12.92	13.19	12.40	13.62
Africa's investment rate as a per cent of developing country average	77.0	78.4	78.8	74.2
Gross domestic savings (per cent of GDP)	17.23	17.32	23.5	30.79
Goods and services balance (per cent of GDP)	1.01	-0.05	2.95	7.04
Average level of reserves in months of imports	7.24	9.02	10.92	13.52
School enrolment, primary (per cent gross)	74.6	81.1	88.14	96.55
School enrolment, secondary (per cent gross)	29.88	31.45	40.81	34.12
Global all-commodity price index	53.62	55.7	65.07	131.94
Global index of energy prices	32.83	34.98	55.3	133.84
Global food price index	99.00	98.34	87.08	123.71
Global non-fuel commodity price index	88.67	91.16	81.78	128.72
Lending rate spread (domestic)	6.01	6.07	8.03	11.85
Domestic credit to the private sector (per cent of GDP)	42.33	51.52	50.69	50.84
Total private flows (per cent of GDP)	0.24	0.11	2.32	1.34

*Source:* ECA calculations based on African Development Indicators (2009).

Mirroring the composition of GDP (table 4.6), exports have been dominated by primary and natural resource-based commodities and by low-skilled, labour-intensive manufactures. Africa's major export market has continued to be the advanced Western economies, although the share of these countries has been gradually declining as new markets such as China, India and Brazil have begun to absorb some of Africa's exports. As yet, however, the new markets account for a small fraction of Africa's total exports (table 4.5). The influence of these markets on African exports has been mostly through increased commodity prices resulting from increased global demand.

‘‘ Exports tend to be dominated by primary commodities and low-skill-labour intensive manufactures ’’

**Table 4.6***Decade averages for some important aggregates*

Year	1980-1989	1990-1999	2000-2007
Output (GDP) growth	2.64	2.50	4.65
Per capita output (GDP) growth	-0.26	-0.11	2.23
Annual rate of growth in the value of exports	3.26	2.94	16.12
Gross domestic savings (per cent of GDP)	25.39	17.27	26.23
Gross domestic investment (per cent of GDP)	22.21	19.62	19.82
Inflation, GDP deflator (annual per cent)	10.18	8.81	6.07
Fiscal balance, cash surplus/deficit (per cent of GDP)			-1.28
General government final consumption expenditure (per cent of GDP)	15.67	16.41	14.18
Current account balance (per cent of GDP)- average across countries	-6.63	-5.43	-2.57
Average annual coefficient of variation for GDP growth	2.43	9.14	1.36
Proportion of the working age population in agriculture	61.11	55.93	51.20
Value added in agriculture as a proportion of GDP	28.05	27.37	23.82
Value added in manufacturing as a proportion of GDP	10.65	10.72	10.01
Value added in mining as a proportion of GDP	8.94	7.77	11.24
Value added in services as a proportion of GDP	41.85	42.46	42.51
ODA total, net disbursement, all donors	12.85	21.22	28.5
Foreign direct investment (per cent of GDP)	0.42	0.8	2.05
Total debt stock (per cent of GDP)	35.94	54.11	37.38
Liquid liabilities (M3 as a per cent of GDP)	30.8	37.07	34.57
Literacy rates	55.96	44.5	
Mortality rate, under-five (per 1,000)	182.88	167.67	148.22
Lending rate spread (domestic)	6.04	9.94	11.04
Public sector investment rate	9.64	6.56	6.96
Private sector investment rate	12.57	13.06	12.86
Domestic credit to the private sector (per cent of GDP)	56.78	46.92	50.75
Total private flows (per cent of GDP)	0.48	0.17	2.15

**Source:** ECA calculations based on African Development Indicators (2009).

“Commodity-driven growth has been largely jobless”

#### 4.2.3 Growth and unemployment

As indicated in the introduction to this chapter, Africa's economic growth in the last two decades has not translated into employment growth. While part of the reason for increased unemployment may be the rapidly growing labour supply, a large part can be attributed to the inability of African economies to generate enough jobs. To some extent, the lack of TFP growth may be attributable to huge capacity underutilization.

The growth rate of aggregate employment in an economy is the weighted sum of the growth rate of employment in the various sectors of the economy, with the employment shares of these sectors as the weights. Employment growth in each sector also depends on the growth rate of that sector and the output elasticity of employment in that sector. This means that the growth of employment in an economy depends on the

**“ Structural  
transformation is  
necessary for rapid  
and sustained  
growth and  
employment ”**

sectoral composition of employment, sectoral growth rates and the output elasticities of employment in the various sectors.<sup>1</sup> The implication is that employment growth in an economy depends on the aggregate growth rate as well as the sectoral composition of aggregate growth. To accelerate the growth of employment in an economy, large sectors with high employment elasticities should be the engines of growth. In effect, structural transformation is necessary for rapid and sustained employment growth.

While African economies generally grew at slightly less than the 7 per cent necessary to meet the MDGs, a major part of the inability to generate employment could be attributed to the sectoral composition of output growth. The major source of economic growth in Africa has been the growth of natural resource-extraction sectors, which by their nature are capital-intensive and, with a few exceptions, have limited linkages to the domestic African economies. Value added in the mining sector, which employs less than 10 per cent of the labour force, grew at over 10 per cent per year, while agriculture, manufacturing and services with combined employment of over 80 per cent of the labour force, grew at less than 2.5 per cent annually in the last two decades. The combination of small size and low employment elasticities implies that growth based on rapid expansion of this sector will not generate high-employment growth. In turn, this suggests that a broad-based employment strategy will not only have to rely on higher aggregate growth but must also pay attention to its sectoral composition.

High unemployment rates pose a problem for poverty alleviation and achievement of the MDGs, as well as for economic growth generally. Africa's economic growth rate has been largely dependent on factor accumulation. However, regardless of the rate of factor accumulation, output growth will be slow unless the factors accumulated are put to productive use. The high rate of unemployment suggests severe underutilization of productive resources, a situation that slows the economic growth rate. The symbiotic relationship between employment growth and economic growth suggests that economic growth in Africa can be increased by increasing the employment rate.

Agriculture contributes about a quarter of GDP but employs about half the labour force (table 4.6). While agriculture's share of GDP decreased from 27.4 to 23.8 per cent during the last decade, the share of mining rose by a similar percentage, shifting the structure of GDP from one primary activity to another. This experience contrasts sharply with that in fast-growing developing countries, where the structure of the economy has shifted towards the manufacturing sector. While this lack of structural change may have positive growth effects in the short run, such dynamics may not provide the foundations needed for a more diversified and dynamic economy.

<sup>1</sup> Formally, total employment growth in an economy is given as:  $g_e = \sum \eta_i g_i(v) S_i$ , where  $g_e$  is aggregate employment growth rate,  $\eta_i$  is the employment elasticity of output growth in sector i,  $g_i(v)$  is the growth rate of value added by sector i, and  $S_i$  is the share of employment in sector i.

Mineral and other natural resources are exhaustible, and commodity prices tend to be highly volatile, thus introducing an element of uncertainty into the growth trajectory. If employment is to grow fast enough to absorb the growing labour force in African economies, the structure of these economies will have to be transformed from almost exclusive reliance on growth in natural resource extraction to increased growth in manufacturing, service and agro-industry, where employment elasticities are much higher.

Africa has the least developed infrastructure of all regions of the developing world

#### 4.2.4 Trends in TFP

The evidence suggests that TFP growth has had minimal impact on economic growth in Africa (Tahari *et al.* 2004, World Economic Forum, 2009, Ndulu *et al.*, 2008). Why this is the case can only be a subject of conjecture. Some possible explanations including institutions and economic management, low and inefficient infrastructure development, and inability to effectively employ accumulated resources come to mind. Although political and macroeconomic environments as well as economic management in Africa have improved in the last 20 years, they still lag behind in many respects (World Economic Forum, 2009). Civil conflicts and political instability in many countries on the continent severely restrict productivity increases.

Despite progress in the area of infrastructure development, Africa has the least developed infrastructure of all regions of the developing world, making these services twice as expensive as elsewhere in the world. Foster and Briceno-Garmendia (2010) estimate that Africa's infrastructure gap, especially in power and transport, stands at 30 per cent, and that it will require about \$US 93 billion annually for the foreseeable future to close the gap (if quality management and improvements are not considered). In addition to the infrastructure deficit, the lack of major research and development (R&D) efforts in African countries may contribute to the lack of TFP growth. Finally, productivity is not likely to grow if accumulated factors are not productively employed. One of the hallmarks of African economic growth has been high unemployment and capacity underutilization (see the discussion on employment below).

Most of the investment in Africa came from domestic sources. During the period under consideration, FDI increased from 0.175 per cent of GDP in 1990-1999 to 1.83 per cent in 2000-2007. In absolute terms, FDI to Africa increased to a record \$US 88 billion in 2008 (*World Investment Report, 2009*). However, most of the FDI was concentrated in a few countries and was geared mainly towards the extractive sectors. For example, in 2008, four countries (Angola, Egypt, Nigeria and South Africa) received 62 per cent of inward FDI to Africa. While the investment rate of about 20 per cent in Africa is an improvement over investment rates in the 1980s, it is relatively low compared to investment rates in the fast-growing Asian countries, where the rates are 30 per cent or higher.

**Stable  
macroeconomic and  
political environment  
and improved  
governance partly  
underpinned Africa's  
growth since 1990**

**Policy environment and macroeconomic stability:** One of the key drivers of Africa's economic growth since 1990 has been stable macroeconomic and political environments combined with improved economic management and political governance. Many countries have adhered to disciplined fiscal and monetary policies, as reflected by generally low fiscal balances and modest inflation rates. In addition, African countries have embarked on structural reforms to improve the efficiency of markets (factor, goods and financial) and the public sector, as well as provided improved infrastructure, although the infrastructure gap is large compared to other parts of the developing world (Forster and Briceno-Garmendia, 2010).

#### **Box 4.1**

##### **The pursuit of good governance embedded in a national development plan: the case of Ghana**

GDP has expanded remarkably in Ghana in recent years. This development has taken place in a context of improved political stability and governance. Under current trends, the country is set to meet a number of MDG targets by 2015 (MDG Report 2005). However, Ghana is lagging behind with respect to the health-related MDGs. Also, the unemployment rate stands at abnormally high levels, mirroring the country's difficulties in translating strong economic growth into commensurate employment gains.

To address this challenge and other developmental challenges, Ghana adopted a national development plan, the Growth and Poverty Reduction Strategy (GPRS II), which covered the 2006-2010 period and gave special attention to governance issues. GPRS II has rested on three main pillars: growth and employment, human resource development, and good governance and civic responsibility. A number of reforms were planned under the governance and civic responsibility pillar. These reforms included reform of the judiciary system to ensure fair and speedy resolution of disputes, protection of human rights and strengthening of institutional capacity for conflict prevention and resolution.

In addition to economic reforms, countries have embarked on bold structural and political reforms (See box 4.1). Multiparty democracy and the organization of elections at frequent intervals have increasingly taken hold in much of the continent. The commitment to improved economic, corporate and political governance is further illustrated by the growing number of countries that are acceding to the African Peer Review Mechanism (APRM), a voluntary system of self-monitoring, which constitutes an important innovation under the New Partnership for Africa's Development (NEPAD).

### **4.3. The impact of the crisis on drivers of recent economic growth in Africa**

The current global economic crisis is likely to have significant negative impacts on the major drivers of economic growth in Africa, which are discussed in

this section. Table 4.6 outlines the expected short-term impact of the current global financial crisis on economic performance in Africa. GDP growth, export growth, the current account balance and debt ratios are expected to recover modestly in 2010 from their collapse in 2009, although at a much slower pace than their peak performances in 2007.

**Table 4.7**  
*Real GDP growth (%)*

	2005	2006	2007	2008	2009 (estimated)	2010 (projections)
Africa	5.9	5.9	6.0	4.9	1.6	4.3
Central Africa	5.0	2.6	5.6	4.5	0.9	3.8
East Africa	7.4	6.8	7.5	6.4	3.9	5.3
North Africa	6.0	5.9	5.3	4.7	3.5	4.1
Southern Africa	6.0	6.6	6.7	4.6	-1.6	4.1
West Africa	5.1	5.3	5.9	5.3	2.4	4.7
Oil-exporting countries	6.8	6.0	6.9	5.6	2.5	4.9
Oil-importing countries	4.9	5.9	5.1	4.2	0.5	3.6

*Source:* ECA calculations based on UN-DESA, November 2009.

The impact of the current financial crisis on growth is not likely to be uniform across all countries or regions. As table 4.7 shows, the crisis will disproportionately affect Central and Southern Africa. It will also disproportionately affect oil exporters and middle-income countries, given that most of the middle-income countries in the group are also oil exporters.

As discussed, the major drivers of the recent economic growth have been factor accumulation financed with increased export revenues from commodity price booms, increased FDI in natural resource sectors, and ODA and remittances. Another important driver of economic growth in Africa has been stable macroeconomic and political environments and better economic management.

### 4.3.1 Factor accumulation

IMF and UN-DESA projections suggest that the current crisis will slow the growth rate but not decrease investment in African countries in the next year or two. However, it is possible that the composition of physical capital investment may change. In the short term, private domestic investment may not decrease, as projects already in progress may be completed. In the same way, while few new instances of FDI may be initiated, it is likely that those already initiated will be completed. Education and health investment by households will continue, as school enrolment rates are likely to grow; existing facilities may be used more intensively if African countries are unable to build new ones. On the other hand, public-sector investment, especially in

*The impact of the global crisis on growth varied across regions and country groupings*

*The crisis significantly constrained the ability of African countries to finance public and private investments*

infrastructure or social services such as health, may be postponed when tax revenues and other sources of funding run out. Given the growth rate of the population and of the economically active population, the supply of labour is likely to continue to grow, assuming that participation rates do not drop dramatically. It must be pointed out that while the crisis may not decrease investment rates in Africa, these rates are already too low compared to rates in other parts of the developing world. The result is that Africa will fall further behind.

The outlook for factor accumulation for the medium term (2011 and beyond) is less certain. The fear is that a prolonged crisis will lead to decreased investment in physical and human capital as the ability of African countries to finance investment decreases with a prolonged crisis. One concern is investment in infrastructure, which for many countries is financed from increased export revenues and ODA. However, projections from the *State of the World Economy* (SOWE) model (table 4.8) suggest that the medium-term growth rate will be modest if current policies continue. If the crisis persists for a relatively long period of time, it is likely that African countries will lose their ability to finance both public and private physical capital investment. It is also likely that investment in human capital will seriously fall. With government revenues, export earnings and ODA decreasing, the fiscal space of African governments will be severely restricted and they will respond by cutting spending on education and health. While the crisis may not shrink the labour force, its growth rate can decrease with the negative impacts on ability to fight diseases such as malaria, tuberculosis and HIV/AIDS. It is unlikely that the crisis will have a negative effect on the supply of labour but it is likely to affect its quality if investment in education and health falls.

**Table 4.8**  
*GDP growth projections*

	2007	2008	2009 (estimates)	2010 (projections)	2011	2012	2013	2014	2015
North Africa	5.3	4.7	3.5	4.1	2.0	4.6	4.4	4.7	4.7
Southern Africa	6.7	4.6	-1.6	4.1	3.5	3.9	4.2	4.4	4.8

*Source:* ECA calculations based on UN-DESA, November 2009 for the period (2007-2010), and projections for the period 2011-2015 generated by the *State of the World Economy* (SOWE) model.

### 4.3.2 Financing accumulation

#### *Export earnings*

The contraction of the global economy has had an adverse effect on demand for African exports, resulting in a collapse in prices and with it, a sharp reduction in

export revenues (table 4.9). The result is that the ability of African countries to finance investment from their own resources has become constrained in the short to medium run. Hard-hit are countries such as Algeria, Angola, Botswana, Chad, Equatorial Guinea, Gabon, Libya, Mauritania, Nigeria, Republic of Congo, Sudan and Zambia that rely on natural-resource exports for over 80 per cent of their export revenues. Although there has been a partial recovery of commodity prices in 2009 and 2010, the high volatility in commodity prices still poses a threat to economic growth in many African countries. Furthermore, because FDI to Africa is tied to profitability in the extraction sector, a world commodity price collapse implies a decline in inward FDI to Africa.

**Table 4.9**  
*Exports of goods and services (% of GDP)*

Aid has been  
an important  
source of capital  
financing in some  
African countries

	2005	2006	2007	2008	2009 (estimates)	2010 (projections)
Africa	34.1	36.7	39.7	45.9	33.7	37.0
North Africa	30.1	35.6	41.2	53.7	37.7	42.4
East Africa	25.8	26.8	26.5	25.5	21.5	21.4
West Africa	40.6	38.3	37.6	38.0	31.3	34.5
Central Africa	61.4	62.2	65.9	66.8	48.7	52.3
Southern Africa	29.1	31.2	32.8	36.1	27.3	28.3

*Source:* ECA calculations from IMF (2009a) and IMF (2009b).

### *Aid and other transfers*

Aid will continue to be a major source of external financing for Africa. However, the current global economic crisis is likely to affect aid to the continent negatively. At a time when donors face serious fiscal crises at home, it may be politically difficult to increase aid commitments or disbursements. There is therefore the possibility that the aid inflow may slow down. There is little evidence that foreign-aid inflows are declining but given the fiscal pressures in donor countries, there is a significant risk of decline after 2010.

IMF projects a fall in donor-aid disbursements in 2010 and beyond. Under these projections, landlocked countries and small-island nations are particularly vulnerable. In addition to the IMF projections, Roodman (2008) argues that the current crisis will result in a reduction in aid flows to the developing world generally, based on experience from aid disbursement during past recessions. History may not be a good guide however, since other factors such as the end of the Cold War may have affected aid flows during past recessions. Other researchers (Pallage and Robe: 2001) find no relationship between aid disbursement and the business cycle, and suggest that the current crisis may not adversely affect aid flows. Notwithstanding these caveats, it is unlikely that aid flows to Africa will increase during the crisis.

**‘‘**  
*Remittances  
are directly  
related to the  
earnings of migrants  
in high-income  
countries*  
**’’**

In addition to the possible reduction of aid flows to Africa, the crisis may also lead to deterioration in the quality of aid, notably higher volatility, delays in disbursement and changes in the composition of aid as donors struggle to honour their commitments, a situation that would decrease the effectiveness of aid-financed interventions.<sup>2</sup> It is also likely that aid would take the form of debt forgiveness rather than a net inflow of resources to Africa, possibly tied to contracts from donor countries, thus changing the modalities. With shortfalls or delays in aid disbursements, low-income African countries may have to run large budget deficits, delay investment plans or cut social spending at a time when it is most needed.

Remittances have increasingly become an important source of external financing for the developing world generally and Africa specifically, now eclipsing ODA as an important source of international financing (IMF, 2009a). For example, remittances to SSA reached \$US 21.1 billion in 2008 (World Bank, 2009); this is expected to fall by 3 per cent (less than the 6 per cent decline predicted for the world) to \$US 20.5 billion in 2009 (table 4.10). Because remittances are directly related to the earnings of Africans in high-income countries, the global economic crisis that reduces job opportunities and incomes in those countries will have a negative impact on the ability of the African Diaspora to send remittances. While the initial reduction in remittances to Africa may be relatively small, it is possible that the delayed reaction will be much stronger.

**Table 4.10**  
*Workers' remittances (growth rates) (%)*

	2006	2007	2008	2009 (estimates)	2010 (projections)	2011 (projections)
Developing countries	18.3	22.9	16.7	-6.1	1.4	3.9
East Asia and Pacific	14.1	23.8	20.8	-1.5	0.8	3.7
Europe and Central Asia	24.1	36.0	13.8	-14.7	2.7	5.0
Latin America and Caribbean	18.1	6.8	2.3	-9.6	0.5	3.5
Middle East and North Africa	4.6	20.1	10.6	-7.2	1.5	3.3
South Asia	25.3	27.1	35.6	-1.8	1.7	4.1
Sub-Saharan Africa	34.7	47.6	13.4	-2.9	1.8	3.9
Low-income countries	23.9	23.4	28.3	0.7	2.6	4.6
Middle-income countries	17.8	22.9	15.6	-6.8	1.2	3.8
World	15.3	21.3	15.3	-5.3	1.2	3.7

*Source:* Ratha et al (2009).

<sup>2</sup> Donors need to accommodate shifting priorities and resource constraints at home and this may lead to shifts in the timing and targeting of their flows, which are more in line with their exigencies than past commitments and recipients' needs.

A number of African countries may suffer disproportionately from a drop in remittance inflows. Lesotho (25 per cent of GDP), Senegal (11 per cent), Cape Verde (10 per cent), Liberia, Morocco, Sierra Leone and Togo (9 per cent), Guinea-Bissau (8 per cent) and Gambia and Kenya (7 per cent) are likely to be hit hard if there is a drastic reduction in remittances.<sup>3</sup>

In the best of circumstances, African countries are not able to borrow at reasonable rates from international financial markets because of poor credit ratings. This is the major reason why ODA has been the major source of external financing. Since the current global financial crisis has restricted credit globally, it is unlikely that Africa countries will be able to use private international financial markets to finance accumulation, production and possibly consumption.

### ***Government revenue, fiscal policy and social services***

Trade taxes and resource rents are the major sources of government revenues in African countries. The reduction in export revenue as well as imports stemming from the current global financial crisis will decrease government revenues in most African countries, with the resource-rich countries being the hardest hit. This reduction in revenues comes at a time when there is need to provide more social services and income support, human capital investments, as well as increased investment in physical infrastructure.

Two possible responses are likely: to cut expenditure or run budget deficits. It is most likely that both will happen in the short run, as it may be politically impossible to cut some programmes such as education, food subsidies or health in a time of recession. IMF estimates that African countries will have negative fiscal balances of 5.7 per cent and -3.5 per cent of GDP in 2009 and 2010 respectively. While the ratio of government revenue to GDP was expected to fall from 24.7 in 2008 per cent to 20.8 per cent in 2009 and 21.6 per cent in 2010, the ratio of government expenditure to GDP was expected to rise from 23.8 per cent in 2008 to 27.2 per cent in 2009 and 26.3 per cent in 2010. If not properly managed, the resulting fiscal imbalance could introduce macroeconomic instability similar to that of the 1980s.

### ***External balance***

Prior to the global financial crisis, private capital inflows to Africa (including portfolio capital) had grown significantly as a result of the improving economic environ-

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<sup>3</sup> These figures are based on flows through “official” channels. Including unofficial transfers may mean larger remittance/GDP ratios, in which case the magnitude of the effects will be much larger.

ment as well as growing global liquidity. The surge in commodity prices also created new opportunities for investment in Africa. Nonetheless, private inflows to Africa have remained considerably lower than in other developing regions. In 2007, Africa's external financing amounted to about 4 per cent of financing to emerging and developing economies. However, the current financial crisis has had a negative impact on private capital flows to Africa. Of particular concern is the complete drying up of portfolio capital after 2008. This will tend to destabilize capital markets, put pressure on reserves and impart high volatility to exchange rates. Indeed, countries such as South Africa and Zambia have seen substantial depreciation of their currencies as a result of these capital outflows.

The impacts of the global financial crisis have been felt through the mechanisms described above. However, the full domestic consequences depend on how these effects interact. Portfolio capital outflows affect the volatility of exchange rates with consequent volatility in international transactions. Lower export revenues and capital inflows slow economic activity and deprive African countries of crucial foreign exchange. This in turn may restrict the volume of imports and affect domestic production. Lower trade volumes and slower economic growth have an impact on government revenues, with serious consequences for budget deficits. The effect will be to deepen the impact of the global financial crisis on African countries.

The effects of the crisis on export earnings and other financial flows suggest that accumulation in African countries is likely to be slowed for lack of financing, and with it, economic growth. Of particular concern for long-term growth is the reduction in human capital and infrastructure investment. Slower economic growth implies, among other things, increased unemployment and lower incomes, hence increased poverty. As a result, economic growth in African countries is likely to slow down significantly, especially in natural resource-exporting countries. While current estimates suggest that average growth in 2010 will be 4.3 per cent, it is expected to be much higher for oil-exporting countries (table 4.6).

### **4.3.3 Employment and TFP**

The result of the financial crisis will be a reduction in the growth rate or a contraction in GDP in African countries. The possible effect of this lower or negative growth rate will be an increase in already high unemployment and decreased capacity-utilization rates. High unemployment tends to lead to decreased real incomes and increased crime rates. This may force households to adopt coping strategies, such as reducing the consumption of high-protein foods and micronutrients, which increase malnutrition and hunger and give rise to adverse effects on health and education. Such impacts on health and education will be amplified by other coping strategies, including the temptation for parents to encourage children to participate in income-generating activities.

erating activities to compensate for income loss caused by the economic slowdown. Further, even if children do attend school, growing malnutrition and poor health could impair learning and lower the quality of education.

With increased unemployment and a low investment rate, and thus a lower capital-labour ratio, TFP is likely to fall. The crisis might also mean that African countries, especially the poorest ones, may not be able to import complementary inputs such as fuel and other intermediate inputs for production. In addition, there might be a loss of human capital as discussed above. These are also likely to contribute to falls in the already low TFP.

### ***Stable macro-environment and better management***

Though not as highly visible as physical capital investment, growth in export revenues, increased ODA or remittances to finance investment, a stable political and macroeconomic environment and better macroeconomic management have helped to maintain economic growth in the past two decades. It is important that such gains should not be reversed by the current economic crisis. Yet, the danger of such a reversal is real, especially in low-income and fragile States. There is a risk that the current global financial crisis could lead to increased fiscal imbalance and social instability as a result of the inability to provide adequate social services.

## **4.4 Conditions for high and sustainable long-term growth in Africa**

The current financial crisis, if not carefully managed, could have adverse effects on short-term and long-term economic growth. Challenging as it may be, the current global crisis provides African countries with an opportunity to craft policies to initiate and sustain broad-based economic growth that generates employment for the majority of citizens and reduces poverty. Because African countries may not be able to influence international economic events, Africans are left with domestic policy responses. These may be of two varieties: short-term responses to deal with the economic downturn and long-term policies for sustainable high-employment growth. These policies may have to address the slow rate of accumulation and increased factor productivity and structural change.

This section argues that macroeconomic policies should stimulate economic growth and reduce unemployment, rather than focus on macroeconomic stability. The elements of such a policy package include: an expansionary fiscal policy to counteract the economic downturn through investment in infrastructure and human capital; a

**In the current economic environment, an expansionary fiscal policy stance is required to generate rapid economic growth and to foster equity in income distribution through employment generation**

higher level of domestic resource mobilization; a monetary policy that accommodates the fiscal stimulus with low real interest rates for the private sector and that alleviates the domestic public debt burden; exchange rate management to ensure currency stability while maintaining a competitive exchange rate to promote exports; and a financial policy that promotes productive employment. Also needed in the long run are: improved economic governance and institutional development including factor market reforms; a serious attempt at R&D and technology transfers; structural shifts to growth in large but lagging sectors; and serious efforts at expanding trade through intra-African trade and regional integration.

#### **4.4.1 Short-term policies**

##### ***Countercyclical policies***

According to Weeks and Patel (2007), countercyclical fiscal policy serves three main functions: it counters the business cycle in the short run, enhances growth in the long term; and fosters equity. In the current economic environment, an expansionary fiscal policy stance is required to generate rapid economic growth and to foster equity in income distribution through employment generation. While some resource-rich countries may have the fiscal space to implement such expansionary fiscal policies, other countries may require support from the international community or may have to settle for a less than vigorous fiscal response.

##### ***Public expenditure***

Prior to the crisis, the share of public expenditure, especially on public investment, in GDP had been increasing (table 4.10). Despite this, investment rates in African countries are still lower than their current development objective requires. The ratio of investment to GDP in Africa reached 25 per cent in 2008, compared to over 40 per cent in Asia. There is therefore a need to increase investment/GDP ratios, and investment in infrastructure and human capital, where Africa has a large deficit (Foster and Briceno-Garmendai (2010), provides a good opportunity. Investment in infrastructure expands productive capacity, stimulates aggregate demand and reallocates resources in an economy (McKinley, 2009). Apart from a short-term stimulus, infrastructure and human capital investment also lay the foundation for long-term economic growth. Properly managed, expansionary fiscal policy during the global down-turn could be very helpful to African countries.

**Table 4.11**  
*Government expenditure (% of GDP)*

	2005	2006	2007	2008	2009 (estimates)	2010 (projections)
Africa	25.9	26.0	27.4	28.2	31.0	29.7
North Africa	30.1	30.8	32.5	33.4	36.4	33.9
East Africa	24.3	24.3	24.3	24.6	24.9	25.5
West Africa	18.6	17.9	20.0	18.4	21.7	20.4
Central Africa	23.2	24.5	27.1	31.3	33.1	31.0
Southern Africa	26.7	26.3	26.5	27.8	30.8	31.1

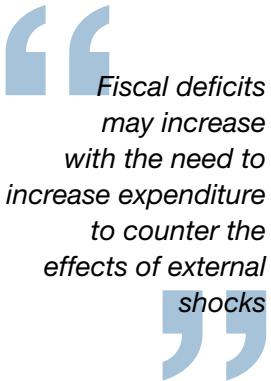
**Source:** ECA calculations from IMF (2009b).

Two major criticisms of expanding public investment are that it tends to crowd out private investment and that it is inflationary. Poor infrastructure and unemployed resources combine to make public investment in infrastructure complementary to private investment rather than a substitute for it. In addition, given capacity underutilization and the fact that infrastructure investment expands the productive capacity of the economy, such fiscal expenditure is unlikely to be inflationary. However, prudence should be used in crafting a fiscal stimulus because it is easy to create unsustainable deficits. Hailu and Weeks (2009) propose that the overall deficit should not exceed the level of public investment. It is also important that some of the investment projects be labour intensive (e.g. road construction, irrigation works, education and health care) in order to generate employment and income for a large number of people.

### *Fiscal revenue*

Ratios of government revenue to GDP in Africa are very low by international standards and have grown only slowly (table 4.12), especially in East and West Africa. The low fiscal revenue/GDP ratios are partly due to inefficient tax administration, but falls in the ratios in recent years may be due to trade reforms. Trade taxes fell as a result of trade reforms, but domestic taxes have not significantly increased to replace the lost revenue from trade taxes. The exceptions to the low tax rates are the resource-rich countries, where high commodity prices have boosted tax revenues. There are signs that the current economic crisis, which has resulted in lower commodity prices, will have a negative effect on revenues, especially in resource-rich countries (table 4.12).

*Inefficient tax administration results in lower government revenue and ability to finance development projects*


 Fiscal deficits may increase with the need to increase expenditure to counter the effects of external shocks

**Table 4.12**  
*Government revenue, excluding grants (% of GDP)*

	2005	2006	2007	2008	2009 (estimates)	2010 (projections)
Africa	27.6	28.8	28.1	30.1	25.2	26.2
North Africa	33.7	35.5	34.6	37.8	31.6	31.0
East Africa	16.5	16.9	17.1	17.1	16.4	16.9
West Africa	22.1	20.3	17.0	18.6	13.3	17.8
Central Africa	29.2	34.8	35.6	39.6	30.0	32.4
Southern Africa	26.3	27.3	27.7	27.0	25.8	25.4
Oil exporters	35.2	35.4	33.0	37.0	28.4	31.9

*Source:* ECA calculations from IMF (2009b).

From the current outlook on fiscal revenues, African countries may have to counter the falling tax revenues with improvements in tax administration, especially by broadening the tax base to incorporate the informal sector and independent professional workers such as attorneys, doctors, consultants and architects. African governments may not be able to rely on external financing during the financial crisis. In addition, increasing domestic revenues will diminish the high aid dependency and also reduce the volatility in revenues which results from extreme reliance on external financing.

### *Fiscal deficits*

Because of declining revenues and the need to increase expenditure during the financial crisis (tables 4.11 and 4.12), governments will run fiscal deficits. The concern with fiscal balance should not overshadow the need to focus on long-term growth and employment generation. Besides, because past efforts have focused on maintaining a low deficit/GDP ratio, only eight African countries had a budget deficit of over 5 per cent in 2007. Hence, there is scope for deficit financing in the short run. The key is moderation and efforts to ensure that this deficit financing is a short-term phenomenon to be corrected over the business cycle.

### *Monetary, inflation and exchange rate policies*

Monetary and exchange rate policies provide a useful complement to a countercyclical fiscal policy and should be used as such in Africa during the current global financial crisis. This is necessary in order to shift from the focus on price stability to a stronger focus on employment generation and sustainable growth. Monetary policy can contribute to pro-poor growth by supporting pro-poor fiscal policies, avoiding excessively volatile inflation episodes, helping to stabilize the balance of payments and the real exchange rate, and improving resource allocation in the

economy (targeting credit to priority sectors and managing the capital account) (Saad-Filho: 2007).

The purpose of exchange rate policy is to ensure a competitive, stable exchange rate so as to reduce volatility in international transactions and foreign reserves. African countries maintain different exchange regimes, and the possible exchange impact of the financial crisis may depend in part on the exchange regime that a country maintains. Some countries peg their currencies to a particular currency or basket of currencies; others maintain a crawling peg while still others maintain a floating exchange regime. The current financial crisis could lead to extreme volatility on the part of the currencies with floating rates, as well as to loss of reserves in cases where currencies are pegged.

Real exchange rate appreciation can modify the structure of the economy and generate enduring effects on productivity and economic growth. Nowhere is this better illustrated than in the “Dutch disease” analysis (Corden, 1982; Corden and Neary, 1984 ; Gylafason et al., 1999).

Real exchange rate appreciation might generate “inertia effects” in the sense that the end of the commodity price booms and subsequent depreciations in real exchange rates might not be sufficient for recovery of the manufacturing sector. Given the potentially positive externalities of the manufacturing sector on the rest of the economy, the persistent decline of this sector lowers productivity and depresses long-term growth. There might be a need to stabilize domestic currencies through appropriate exchange market interventions to address these problems.

*“ The impact of external shocks may vary according to the exchange regime adopted by the country ”*

#### **4.4.2 Financial development**

Financial policies are an important catalyst for investment and can complement fiscal policies. Financial systems have an important role to play in promoting more efficient and socially desirable allocation of domestic resources and in stimulating economic activity. In most African countries, the banking sector dominates the financial system and is characterized by excess liquidity, high (lending) nominal interest rates, and a lending portfolio concentrated on large businesses and the central government (UNCTAD 2009). The current economic situation presents African countries with an opportunity to evaluate country experiences and identify appropriate policy options on financial development.

Table 4.13 shows high nominal average lending rates in Africa, but real lending rates may be much lower. The key to inadequate credit may not be the cost of credit but its availability. Those who need credit may not have access to credit, regardless of the cost. At the same time, low real deposit rates may not attract private savings, limit-

**‘‘**  
*It is an  
 important policy  
 issue to ensure that  
 vulnerable groups  
 and strategic sectors  
 have access to  
 credit*  
**’’**

ing the resources available to finance investment. The high interest rate spread might reflect a high-risk premium stemming from the perception that borrowers in Africa carry a high risk of default, and a concentration of providers, with a few commercial banks dominating the domestic credit market.

**Table 4.13**

*Domestic interest rates in Africa (annual averages, %)*

Year	Lending rate	Deposit rate	Inflation	Spread	EAP	Spread LAC
1980	12.0	6.5	15.0	5.5	...	...
1985	14.5	8.6	9.0	5.9	...	4.4
1990	18.3	10.8	8.7	7.4	4.8	7.2
1995	18.5	8.0	10.0	10.5	6.6	12.4
2000	21.3	9.4	6.1	11.9	6.9	8.6
2005	17.7	7.3	8.3	10.4	6.2	7.9

**Source:** African Development Indicators (2009) and World Development Indicators (2009).

**Note:** EAP: East Asia and the Pacific. LAC: Latin America and Caribbean. “Spread”: the difference between the average rate at which commercial banks lend funds and the average rate for deposits. “Inflation” refers to the GDP deflator.

The current financial development strategy is not likely to allocate credit to sectors that need it the most, nor to where the marginal benefits will be highest, as it neglects key vulnerable sectors within the economy. The most important policy option is to ensure that vulnerable groups and strategic sectors have access to credit. Governments could provide loan guarantees targeted at specific sectors. This policy would lower the risk premiums applied by commercial banks and reduce the cost of credit to these groups. More important, it would remove one of the barriers to credit for these groups. Additionally, central banks could offer a system of differential reserve requirements to encourage lending to credit-constrained sectors. This could improve the allocation of lending by commercial banks through incentives that provide financing to sectors that are chronically underinvested. Finally, central banks in more advanced African economies could help to strengthen the regulatory framework (supervision) and provide effective monitoring of risks (surveillance) in the domestic financial institutions of other African countries. Such cross-border cooperation among African countries could be crucial in improving risk management and building up regional financial infrastructure.

#### 4.4.3 Long-term strategies

Sustainable poverty alleviation, improved living standards and achievement of the MDGs in Africa require sustained high incomes and employment growth rates over a long period of time. This means that macroeconomic policies should focus on taming inflation and restoring fiscal and external balances, as well as on output



*Enhancing  
human capital  
development  
is important for  
growth and poverty  
reduction*

and employment growth (Nnadozie, 2009). To achieve long-term growth with high employment requires not only increased factor accumulation and increased TFP growth, but also institutional reforms and structural changes in African economies. The current global economic crisis provides an opportunity for Africa to develop and implement a range of policies that will lead to long-term economic growth with high employment and structural change. These policies might have such aims as increasing human and physical capital accumulation, generating employment, increasing domestic resource mobilization, enhancing resource management and improving domestic institutions. As with the short-run policies discussed above, the relative importance of each policy change will differ across countries.

#### 4.4.4 Accumulation

African countries cannot hope to accelerate growth and reduce poverty if the rate of factor accumulation remains as low as it is. Africa should aim at achieving an investment/GDP ratio of at least 35 per cent, similar to the rates attained by the East Asian countries. In addition to the quantity of investment, African countries should also focus on its quality. Of particular importance is investment in infrastructure. Foster and Briceno-Garmendia (2010) find that Africa's infrastructure stock stands at only 39 per cent of that of other parts of the developing world, and calculate that Africa would need investment of \$US 31 billion annually for the foreseeable future to close the gap even if drastic improvements in efficiency are made (the gap is much wider without appropriate improvements). Perhaps a possible way to finance infrastructure investment is through private-sector participation or effective user fees, as China has done with toll roads. African countries should also pursue policies designed to ensure a stable macro-environment, low lending rates and contract enforcement, which encourages private investment, especially in agriculture and agro-industries. Attention should be paid to attracting FDI elsewhere such as to agro-industry and service exports, than to the natural resources-extraction sector.

Enhancing human capital development has to be a top priority if economic growth and poverty reduction in Africa are to be sustainable. In education, international development agencies, such as the World Bank, have emphasized primary education. However, some studies suggest that post-primary education contributes more to growth than primary education, so that Africa needs to expand post-primary education in order to grow fast and reduce poverty in the long run. Increasing enrolment rates and improving the quality of post-primary education in Africa should therefore be a priority.

In addition to increasing enrolment and rates retention in post-primary education, African countries should emphasize the development of problem-solving skills to meet their development needs, to replace the emphasis on reading and numeracy.

**Reforming the  
education system  
requires a shift to  
basic sciences**

There should be a shift to basic and applied sciences, engineering, mathematics and other technical skills. Perhaps educational institutions, ministries of education and businesses could collaborate to develop the relevant curricula. To encourage the development of scarce and needed skills, wages and labour market conditions should reflect the relative scarcity of skills instead of following the practice in some countries of often paying graduates the same regardless of skill sets.

There is a need for Africa to continue to increase its investment in health, given its relatively low health index (UNDP, 2008). Investment in health not only increases human capital, but better health is a development objective in itself. However, the emphasis on health investment should be on public health sanitation, nutrition, environmental health, and prevention rather than curative medicine. The prevention of communicable diseases such as tuberculosis and HIV/AIDS, especially mother-to-child transmission, should be a top priority through education and appropriate interventions. Finally, African leaders should provide political leadership and treat these diseases, especially HIV/AIDS, as a public health issue rather than a moral issue.

#### **4.4.5 Financing accumulation**

It is unlikely that Africa can continue to rely mainly on international sources to finance the ambitious accumulation of capital and structural change that it needs to transform its economy so as to put it on a sustainable path of high employment and high growth. Even if foreign financing is forthcoming, it certainly will not be enough; in the end, the burden of African development will have to be carried on African shoulders. Serious emphasis should therefore be placed on increasing domestic resource mobilization.

***Increasing the savings rate:*** At below 20 per cent of GDP, the savings rate in Africa is very low compared to other parts of the developing world. A major reason may be that a large proportion of the population is not connected to the financial system and therefore has no access to savings instruments. Increasing the domestic private savings rate in Africa will entail expanding the financial system to reach the majority of citizens through appropriate innovative financial reforms. This can be done by taking advantage of advances in technology. Examples of such innovative approaches are Ghana's E-zwick biometric system, which allows banks and informal financial institutions to offer savings and other financial instruments on a common platform without regard to location and Kenya's use of mobile phones for banking. African countries should expand on these innovations to bring banking to the rural and informal sectors, as well as introduce more savings instruments.

*Efficient financial and capital markets and improved resource management provide a basis for increased investment and sustained growth*

In addition to expanding the financial base, there is need to develop efficient financial and capital markets with diversified financial instruments to attract both domestic and foreign savings. While African countries established capital markets as part of the financial reforms of the 1990s, these markets are often very thin and trade in only a few domestic offerings. Expanding efforts to offer more instruments may be necessary. African countries could also raise resources to finance accumulation through the issue of “diaspora bonds”. Experience from India suggests that financial inflows from diaspora bonds continued during the current global financial crisis. Revenues from such bonds could dampen some of the volatility in foreign financial flows, as they tend to be stable even in times of reduced global economic activity. Some researchers (e.g. Bawumia, 2010) have suggested establishment of a regional African fund as a way of raising international capital to finance accumulation in Africa. Such a fund, it is argued, would raise Africa’s credit ratings. He suggests tax on petrol of \$US 0.05 per gallon to establish the initial subscription to the fund. Such a regional approach would make it easier to attract international capital as well as increasing regional cooperation.

Efforts to increase private savings should be complemented by increased public savings resulting from larger budget surpluses or smaller budget deficits. Given the relatively low levels of public services provided in Africa and the relatively high rates of poverty, it may be imprudent to balance budgets by cutting government spending. The only reasonable alternative is to raise government revenues, especially given that government revenues amount to less than 30 per cent of GDP. Fiscal revenues can be increased by expanding the tax base to include the informal sector and self-employed professionals, improving tax administration and raising the tax on natural resource rents.

**Improved resource management.** Another way to effectively finance accumulation is to improve resource management to allow for the efficient and inter-temporal allocation of savings and other financial resources. This will be necessary to reduce the volatility that has been the hallmark of African economic growth since the 1960s. One possible way to reduce this volatility is to smooth the use of export revenues by increasing savings in times of commodity booms and reducing them in times of reduced export earnings. Botswana has successfully followed this strategy, which other African countries could also follow. In the same way, African countries could work with donors to reduce the volatility in ODA disbursements. For example, they could work out an arrangement whereby donors could deposit aid disbursements into a fund for the recipient country to draw down as needed.

**Employment policy:** While rapid economic growth may help to create employment, the total amount of employment created will depend on the aggregate growth rate as well as the employment elasticity of growth, which is partly a function of the sectors that are the growth engines. It is unlikely that rapid growth based on mineral exports

*Employment policy is needed to increase the employment-elasticity of growth*

alone will create enough jobs to absorb the growing labour force, because these sectors tend to be capital-intensive, have few linkages to the domestic economy, and employ a relatively small share of the labour force. Increasing employment will involve structural changes in the economy in addition to fast growth. These structural shifts may include efforts to increase the productivity of and growth rate in the agriculture, manufacturing and service sectors, factor market reforms that encourage labour-intensive production methods, and other employment policies.

One way to achieve the structural transformation of African economies is to pursue policies that invest export rents in agriculture and agro-processing industries as well as in light manufacturing and service industries, through appropriate incentives (UNECA, 2009). These sectors not only employ large proportions of the labour force but are also labour-intensive, and so growth in these sectors will generate more employment than the same growth in the natural resource-extraction sector. Emphasizing these large sectors will not only create employment and increase incomes; it will also increase the domestic market to support other industries. Such a strategy of structural transformation will also reduce the volatility of growth imparted by the volatility of export earnings and aid flows.

Another employment strategy is for African countries to insist that multinational corporations engaging in resource extraction should institute some processing of the resource in the domestic economy with specific targets and timelines, as a condition for gaining the contract. This will allow the natural resource-extraction sector to develop linkages with other sectors of the domestic economy. In addition to a strong commitment to attracting FDI, especially in the service export sectors, African countries could also use the provision of social services such as health, education and mail delivery as a mechanism for employment creation. Employment creation will also entail factor market reforms to change the relative price of labour as well as to generate the labour market flexibility needed to allow for employment creation and a sectoral shift of labour.

Any meaningful employment strategy in Africa will involve the informal sector. The issue with the informal sector is not how to generate employment but how to increase productivity and incomes. Among the policies that can be pursued to increase productivity in the informal sector are increased training to upgrade skills, provision of support services and access to resources, especially credit, and linking the informal sector to formal-sector markets and institutions. For example, the formal sector could offer market outlets for firms in the informal sector.

African economies are too small to have domestic markets that can support any globally competitive manufacturing enterprise. Sustained economic growth in Africa will require Africa to expand and diversify its export markets. One way to do so is

through regional integration. In addition, Africa should bargain for market access at the Doha Round of negotiations under the auspices of WTO.

#### 4.4.6 Increasing TFP growth

If Africa is to become competitive in the world market and enjoy sustained economic growth, the region has to make a serious effort at increasing TFP growth, since accumulation alone may not be enough to sustain a high growth rate in the long run. Policies to increase TFP growth may include a serious commitment to R&D, technology transfer through FDI in non-extractive industries, and institutional reforms that encourage and reward innovation. Technology transfers with benchmarks and timelines should be negotiated into FDI contracts. R&D, especially in agriculture and industry, could be carried out and financed on a regional basis so that no single country will have to bear all the cost of development. Technology transfer could be partly achieved through FDI, especially in the emerging renewable energy sector, where Africa may have a comparative advantage.

As argued above, investment in infrastructure to reduce transaction costs, a stable macroeconomic environment, political stability and institutional reforms, especially those that allow resource markets to function efficiently, will have positive effects on TFP growth. Structural transformation that shifts production from stagnant sectors of the economy to high-productivity and dynamic sectors can also increase TFP in the economy. This structural transformation can be achieved through fiscal, monetary and credit policies as well as other demand-management policies. In addition, changing the structure of education to provide graduates with the appropriate skill sets will be necessary.

**Stable macroeconomic environment and economic management:** Although African countries need to stimulate their economies, they also need to maintain macroeconomic stability and improve economic management. While much has been achieved in the last two decades, inflation rates are still high in many countries, economic management is still rudimentary, and most economies remain highly unstable. In spite of the need to expand infrastructure investment, budget deficits and domestic public debt should be kept at manageable levels. Transparency, better governance generally and political stability are a necessity. In this connection, the APRM process is very helpful and should be encouraged. Similarly, while monetary policy should be accommodating to encourage rapid growth and employment generation, it should not be so expansionary as to ignite inflationary pressures.

*If Africa is to become competitive in the World market, it has to make serious efforts at increasing TFP growth*

## 4.5 Conclusion

*The crisis provides opportunities for African countries to pursue more effective long-term growth and employment strategies*

Economic growth resumed in Africa in the last two decades after stagnation in the 1980s. Continent-wide average growth in GDP reached a record 6.1 per cent in 2007. This relatively high economic growth rate was dependent on an increased supply of labour, and the accumulation of physical and human capital that was financed by increased export earnings from high commodity prices, an increased aid inflow, remittances, and to some extent, FDI in the natural resources- extraction sector. The higher economic growth was also made possible by a stable, improved macroeconomic environment, improved economic management and political stability.

This higher growth rate was, however, not accompanied by structural change or employment creation, as unemployment remained high in double digits. The growth rate without employment creation was not high and widespread enough to meet Africa's development objectives of achieving the MDGs by 2015. If these objectives are to be achieved, economic growth needs to be faster and the benefits of growth spread broadly through sustained growth and employment creation.

The recent global financial crisis threatens to undo the gains that African countries have made as the demand for commodities in the world market and hence prices and African export revenues, have tumbled, FDI inflows are threatened, ODA disbursements have become uncertain and remittances have fallen. This not only threatens to reduce savings, government revenues and factor accumulation, but has decreased the income growth rate and social expenditure and increased budget and trade deficits in the short run, and threatens to do long-term damage to Africa's economic prospects.

The challenges to African economic development stemming from the current global financial crisis also provide Africa with opportunities to develop and implement game-changing strategies for long-term growth with growth in employment. Instead of pursuing the current strategy with its volatile growth trajectory, the crisis offers African countries an opportunity to craft policies that will enable them not only to emerge from the global recession but to lay the foundations for long-term economic growth that generates employment and reduces poverty.

This chapter has argued that, in the short run, African countries should use expansionary countercyclical fiscal, monetary and exchange rate policies as well as better management of resources to expand human and physical capital, especially infrastructure accumulation and the provision of public services to counter the business

cycle. This will also lay the foundations for long-term economic growth. In the long term, African countries should continue to accumulate human and physical capital but also focus on structural transformation, institutional reforms and improved economic management, as well as placing serious emphasis on TFP growth. In the long run, the development of Africa is the responsibility of Africans; hence, African countries should be serious about generating enough domestic resources to finance long-term economic growth.

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# 5

## Growth-employment-poverty reduction linkages: a framework for recovery and accelerated progress towards the Millennium Development Goals

This chapter discusses the problem of unemployment in Africa, providing evidence on its trends and causes. The chapter then examines the issue of jobless growth experiences, assesses the impact of the global crises on employment and vulnerable groups in Africa and provides suggestions on how to reorient growth and development strategies to strengthen the growth-employment nexus for poverty reduction.

Poverty in Africa is substantially higher and more highly feminized than in other developing regions. The share of the population living below the US\$ 1.25-a-day threshold is as high today, at 50 per cent, as it was in the 1980s. This is so despite significant improvements in growth in Africa since the beginning of the century. High unemployment rates persisted in Africa before the crisis, but the crisis has undoubtedly accentuated the problem. Mainstreaming job creation in recovery and long-term growth and development strategies is critical to enable the continent to avoid repeating previous experiences of jobless growth and reduce unemployment so as to ensure poverty alleviation, especially in rural areas and among vulnerable groups.

Poor people have severely limited access to and control over key assets, including land and physical and human capital. Lacking production and human capital endowments, the poor have low income and low consumption. Most poor people are also inadequately educated and generally less healthy than the rest of the population. Many depend for their livelihoods on low-productivity subsistence agriculture or on the informal sector, where returns to labour and capital are generally low. Workers in the informal sector have low incomes, limited protection and frequent spells of unemployment. These factors, coupled with lack of access to institutions that shape policies, prevent the poor from acquiring the capabilities for decent work. In sum, as UNECA (2005) notes, strengthening the link between economic growth, employment and poverty reduction in Africa requires, first, policies to increase the employment intensity of growth, and second, enabling the poor to integrate into the growth process and find decent work.

Curbing poverty through employment generation demands deliberate action. It requires coordinating the supply of and demand for labour, because employment-

*Growth and employment policy should enable the poor to integrate into the growth process and find decent work*

**“Employment is the key channel through which growth can result in poverty reduction”**

intensive growth is necessary but not sufficient. That is, even if jobs are created, it is unlikely that the poor possess sufficient skills to take advantage of new employment opportunities. Governments have the responsibility to encourage adequate private-sector-led labour-intensive investment and ensure that poor people have access to human capital development programmes and the skills needed by the labour market.

It is worth noting that the empirical analysis of this study is constrained by a lack of relevant information. The data problem is more fundamental for unemployment. In many African countries, the social structure is such that “unemployment” is not a relevant analytical category because a large portion of the labour force, a majority in many countries, work in employment relations not primarily defined by payment of wages, and because there are no formal institutions that would allow people to sustain themselves without work. To the extent that statistics allow, wage employment is analysed; even in those countries in which wage employment is relatively small, it can and does make a substantial contribution to “decent work” and aggregate demand at the margin.

## 5.1 Trend and nature of unemployment in Africa

Employment is the key channel through which growth can result in poverty reduction. Heads of State and government from all over the world met in September 2000, in the largest ever high-level gathering at the United Nations, and adopted the Millennium Declaration and the MDGs. By setting these goals, countries committed themselves to making significant progress on key dimensions of development by 2015. To ensure significant progress towards achieving these goals, the Outcome Document of the 2005 World Summit urged developing countries to “adopt, by 2006, and implement comprehensive national development strategies to achieve the internationally agreed goals and objectives, including the Millennium Development Goals”.

In 2007, two distinct events took place. In Paris, the Inter-Agency and Experts Meeting on the Millennium Development Goals Indicators came up with a new target and indicators that further focused on employment, health and other determinants of poverty. Also in 2007, 43 countries in sub-Saharan Africa adopted MDG-consistent Poverty Reduction Strategy Papers (PRSPs) emphasizing decent employment as a way out of poverty. Africa’s commitment to the MDGs was reaffirmed at the African Union Summit held in Banjul, The Gambia in 2006, and at subsequent African Union summits and ministerial conferences as well as ECA Conferences of

African Ministers of Finance, Planning and Economic Development, specifically the fortieth Conference in 2005, which called for firmly grounded action plans to achieve the Goals.

Despite the numerous declarations and commitments, the overall employment situation in Africa has not changed over the last decade. The majority of the population are employed in the agriculture sector, rather than in services and industry (table 5.1). The overall employment structure gives more concrete expression to the state of the employed in Africa. The majority employed in the agricultural sector are daily income earners, small-scale farmers and unpaid family workers - sometimes a combination. The high exposure of the agricultural sector to natural incidents such as droughts and other environmental changes increases the vulnerability of employees in this sector. Moreover, as table 5.4 demonstrates, the share of vulnerable employment was higher in sub-Saharan Africa than in North Africa between 1997 and 2007.

*“ For most African countries, unemployment rates have remained unchanged over the last decade ”*

**Table 5.1**  
*Sectoral share in employment, world and Africa (%)*

Agriculture	1998	2003	2004	2005	2006	2007	2008 (estimates)
World	40.8	38.7	37.5	36.5	35.5	34.4	33.5
North Africa	35.9	34.7	35.3	34.5	33.8	33.1	32.4
Sub-Saharan Africa	67.6	65.4	64.4	64.0	63.4	62.5	61.7
Industry							
World	21.1	20.7	21.1	21.5	22.1	22.7	23.2
North Africa	20.0	19.2	19.7	20.8	21.7	22.7	23.7
Sub-Saharan Africa	9.5	9.5	9.7	9.7	9.9	10.1	10.3
Services							
World	38.1	40.7	41.5	41.9	42.4	42.9	43.3
North Africa	44.1	46.1	45.1	44.8	44.5	44.2	43.9
Sub-Saharan Africa	22.9	25.1	25.9	26.3	26.7	27.4	28.0

*Source:* Global Employment Trends. ILO, 2009a: Extracted from table A7.

For most African countries, unemployment rates remained almost unchanged even during the recent growth upturn that ended in the second half of 2008. In 1998 and 2008, the total unemployment rate was 7.4 per cent and 7.6 per cent in sub-Saharan Africa and 12.8 per cent and 10 per cent in North Africa respectively (ILO 2009b). As a result of the global crisis, the unemployment rate was estimated to have risen in 2009 to an average of 8.2 per cent in sub-Saharan Africa and 13 per cent in North Africa.<sup>1</sup>

<sup>1</sup> The analysis of unemployment in this chapter is based on statistics and estimates by ILO, which provides separate figures for North Africa and sub-Saharan Africa.

**The worst affected groups in African job crisis are women, young people, the disabled and the elderly**

The worst-affected groups in Africa's job crisis are women, young people, the disabled and the elderly. Women workers dominate the informal sector, concentrated in activities such as unpaid agricultural work, food processing, street vending, petty cross-border trading, marketing of processed and semi-processed agricultural products and household domestic duties. Only a small but growing percentage of women work in the formal sector - for example in teaching, nursing, mining services, manufacturing and lower-level clerical jobs. Women's share in wage employment in the non-agricultural sector varies from 28.2 per cent in Morocco to 43.1 per cent in South Africa.<sup>2</sup> In 2008, unemployment among women ranged between 15 per cent in North Africa and 8.2 per cent in sub-Saharan Africa (table 5.2). Women's unemployment problems arise from a variety of factors including cultural prejudices, educational discrepancies between males and females and a lack of marketable skills.

The gender dimensions of employment can also be appreciated through an analysis of the share of employed people in the working-age population (those aged 15 years and older) or the employment-to-population ratio. In most countries this ratio is higher for men than for women (annex table 5.1).

**Table 5.2**  
*Unemployment rates in Africa, 1998-2008 (%)*

Total	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
North Africa	12.8	13.3	14.1	13.6	13.4	13.1	12.3	11.5	10.5	10.6	10
Sub-Saharan Africa	7.4	7.9	7.9	8.1	8.1	8.2	7.9	7.9	7.8	7.7	7.6
Males											
North Africa	11	11.6	12.3	11.6	11.4	11	10.1	9.2	8.4	8.6	8.1
Sub-Saharan Africa	7.2	7.3	7.5	7.6	7.6	7.7	7.5	7.5	7.4	7.3	7.2
Females											
North Africa	18	18.2	19.5	19.3	19.3	19	18.2	17.7	16	15.8	15
Sub-Saharan Africa	7.7	8.6	8.4	8.6	8.8	8.8	8.5	8.4	8.4	8.2	8.2
Adults											
North Africa	8.3	8.8	9.4	8.8	8.9	8.6	7.7	6.7	6.4	6.6	6.3
Sub-Saharan Africa	5.9	6.2	6.3	6.5	6.5	6.6	6.4	6.4	6.4	6.2	6.2
Young people											
North Africa	26.3	26.4	28.8	29.2	28.1	27.7	27.5	27.9	25	25.2	24.1
Sub-Saharan Africa	11.2	11.8	11.7	11.9	12.1	12.1	11.8	11.6	11.5	11.4	11.3

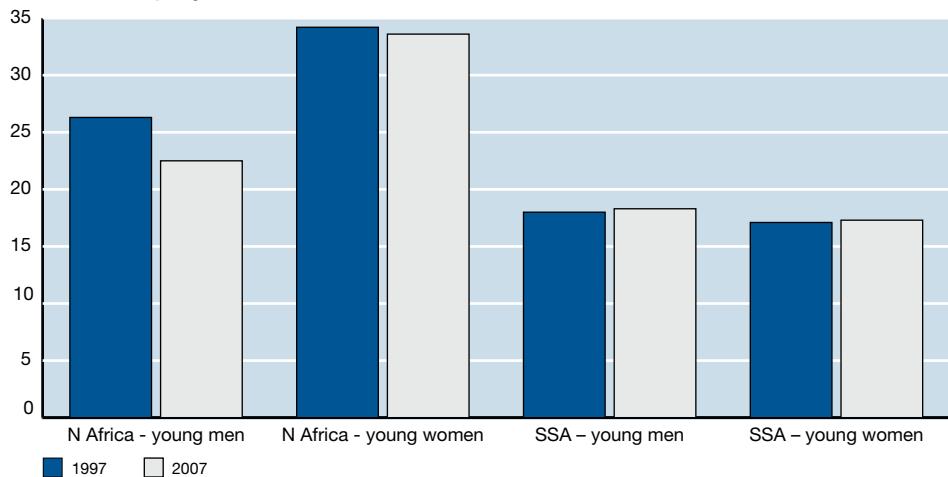
**Source:** ILO 2009a.

<sup>2</sup> Official United Nations site for the MDG indicators, 2009 (<http://www.un.org/millennium-goals>).

Despite declining fertility rates in Africa, the devastating effects of the HIV/AIDS epidemic and high maternal mortality rates, the population of Africa remains the world's fastest-growing and most youthful. Young people continue to have better chances of surviving into old age thanks to improvements in nutrition. In 2008, more than 60 per cent of the African population was below 25 years old. Young people aged between 15 and 24 in the African labour force suffer the most because they lack adequate education, work experience and on-job experience sought by employers, as well as suffering from a mismatch between their skills and the labour market. Consequently, youth unemployment in 2008 was 11.3 per cent in sub-Saharan Africa and 24.1 per cent in North Africa (table 5.2).

The slow demographic transition in Africa results in high population growth, exacerbating youth unemployment (figure 5.1). Over 200 million Africans are now officially designated as youth (i.e. aged 15 to 24). Young people make up 40 per cent of Africa's working-age population, and they have the highest unemployment rates. Youth unemployment in sub-Saharan Africa has persisted at approximately 12 per cent for the last decade, falling to 11.4 per cent in 2007 for young men; for young women, the rates were 13 per cent for 1997 and 12 per cent in 2007. The unemployment rate among young men in North Africa dropped over this period, from 23.0 per cent in 1997 to 20.0 per cent in 2007. The corresponding rates for young women were 30 per cent in both 1997 and 2007. The ratio of youth to adult unemployment rates dropped to 1.8 for sub-Saharan Africa in 2007, while in North Africa it actually rose to 3.4 (ILO, 2008). The share of unemployed youth among the total unemployed was as high as 83 per cent in Uganda, 68 per cent in Zimbabwe and 56 per cent in Burkina Faso. In all, 72 per cent of African young people live on less than US\$ 2 a day (World Bank 2009a).

**Figure 5.1**  
*Youth unemployment in Africa*



*Source:* UNECA and AUC, 2009.

“ More than  
60 per cent of  
Africans are below  
25 years of age  
and have  
the highest  
unemployment rate ”

## **Extent of vulnerable employment greatest in Africa**

*Vulnerable  
employment is  
greatest in Africa*

Vulnerable unemployment is defined by ILO as the sum of self-employed workers and contributing family workers in employment. Contributing family workers are those workers who hold “self-employment jobs” as self-employed workers in a market-oriented establishment operated by a related person living in the same household who cannot be regarded as partner (ILO 2009c).

In general, all forms of employment are subject to vulnerabilities. However, some employment categories tend to be disproportionately exposed to higher levels of vulnerability because of their informal (non-contractual) nature, the uncertainty of income, the lack of ability to unionize and limited choices available to the individual.

Sub-Saharan Africa has a high labour force participation rate of 65.3 per cent, the second highest in the world after South-East Asia and the Pacific. This high rate is strongly related to the elevated incidence of poverty, which often forces poor people to work regardless of the quality of work. In addition, the lack of educational alternatives forces a large proportion of young people to work. Male employment actually declined between 1998 and 2008 in sub-Saharan Africa, though only marginally, but female employment increased, so that total employment remained almost unchanged. In North Africa, the employment rate is relatively low, especially for women, who are often discouraged by social and cultural values from seeking paid employment. In 2008, female employment in North Africa was as low as 23.7 per cent, compared to 56.6 per cent in sub-Saharan Africa (table 5.3). This underscores the large potential of both North Africa and sub-Saharan Africa to expand employment and labour supply through more inclusive gender policies. Overall, total employment in sub-Saharan Africa averages above 64 per cent as compared to North Africa’s average of just above 40 per cent (table 5.3).

However, even those that are employed struggle to find decent work, especially in sub-Saharan Africa (box 5.1 and table 5.4). In sub-Saharan Africa, the share of people in vulnerable employment situations (either as unpaid contributing family workers or as self-employed workers) is still above 70 per cent, while the share of wage and salaried employment is about a quarter of all those employed. The situation is worse for women, 84.4 per cent of whom are in vulnerable employment (table 5.4). The picture does not look much brighter for men: only 3 out of 10 have wage or salaried employment. The only difference is that, unlike women, men are unlikely to be entrapped as unpaid family workers with no income at all. The female share in this group is 34.7 per cent, compared to 18.4 per cent for men (ILO, 2008).

**Table 5.3***Employment by sex, North Africa vs. sub-Saharan Africa, 1998-2008 (%)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total</b>											
North Africa	43.3	43.7	43.1	43	43.3	43.7	44.5	44.6	45.3	45.5	45.7
Sub-Saharan Africa	65.2	64.9	64.9	64.8	64.7	64.6	64.9	65.0	65.0	65.2	65.3
<b>Males</b>											
North Africa	67.0	66.9	66.1	66.0	66.2	66.3	67.2	67.3	67.7	68.0	67.9
Sub-Saharan Africa	75.6	75.5	75.1	75.0	74.8	74.4	74.5	74.4	74.2	74.4	74.3
<b>Females</b>											
North Africa	20.1	20.6	20.4	20.2	20.6	21.3	22	22.2	23.1	23.4	23.7
Sub-Saharan Africa	55.3	54.8	55.0	55.0	55.0	55.2	55.7	56.0	56.2	56.4	56.6

Source: ILO, 2009a.

**Table 5.4***Share of vulnerable employment in total employment, North Africa vs. sub-Saharan Africa (%)*

	1997	2002	2003	2004	2005	2006	2007
<b>Total</b>							
North Africa	42.9	40.3	39.8	41.1	40.9	38.6	37.1
Sub-Saharan Africa	80.9	79.3	79	77.3	77.7	78.3	77.4
<b>Males</b>							
North Africa	39.3	38.4	36.9	36.7	37.2	34.5	33.1
Sub-Saharan Africa	76.2	74	73.4	70.7	71.7	73	72
<b>Females</b>							
North Africa	55	46.2	48.8	54.2	52	50.3	48.5
Sub-Saharan Africa	86.9	86.2	86.4	85.8	85.3	85.1	84.4

Source: ILO 2009a, January.

**Box 5.1***Perceptions of unemployment in sub-Saharan Africa*

While it is questionable whether the standard definition of unemployment is relevant for most countries in sub-Saharan Africa, surveys show people's perception of unemployment has a major impact on their assessment of their well-being. This is shown below using information from an Afrobarometer Briefing Paper.

Afrobarometer asks a simple series of questions. Do you have a job that pays cash income? Is it full-time or part-time? And are you looking for a job (even if you are presently working)?

Of respondents in 2002-2003 across 15 African countries, two thirds said they are unemployed (66 per cent), of whom the majority were not seeking a job. Some 12 per cent of the respondents reported being employed part-time, and most of them kept looking for more work. Finally, just 22 per cent reported possessing full-time paid employment, though almost half said they still sought a better job. The range of self-reported unemployment was wide, from a low of 45 per cent in Ghana to a high of 89 per cent in Mali.

 Vulnerable employment is higher among females than males

**“**  
Unemployment  
has been identified  
as the main  
concern of African  
people  
**”**

Over time, the self-reported unemployment rate was unchanged, at least across six southern African countries. In the aggregate, it was 65 per cent in 1999-2000 and 66 per cent in 2002-2003. At the country level, self-reported unemployment went down over time in Botswana and Malawi (by 8 percentage points in both cases) and up in Namibia and Lesotho (by 16 and 9 percentage points respectively). In South Africa it remained stable at 55 per cent.

To all appearances, paid employment has become a defining feature of an African's internal sense of well-being and validation in the community. Unemployment topped people's development agenda, not only in 1999-2000, but also in 2002-2003. Even though this measure of unemployment held steady over time (at 17 per cent of all problems cited), there are at least two reasons to think that it is a growing cause of popular concern. First, the proportion of people who mentioned unemployment as one of their first two priorities went up sharply, from 25 per cent in 1999-2001 to 43 per cent in 2002-2003. Second, whereas the lack of jobs was cited as the most important problem in less than half of all countries surveyed in round 1 (5 out of 11), by round 2 it attained this lead status in two thirds of all countries surveyed (10 out of 15).

In the harsh light of public opinion, African governments receive low marks for economic management, especially job creation. Popular evaluations of government performance on basic economic tasks - creating jobs, controlling inflation and narrowing income gaps - only about one in three Africans interviewed thought that their government was performing well.

Resistance to civil service retrenchment is deepening across sub-Saharan Africa. In the short period between 1999 and 2003, there was a 10-percentage-point shift against the proposition that “the government cannot afford so many public employees, and so should lay some of them off”. The largest drop-offs in favour of job cuts have occurred in Ghana, South Africa, the United Republic of Tanzania and Zambia during the period when the governments of these countries sought to streamline the civil service. Popular resistance has grown to the policy of downsizing the State.

*Afrobarometer Briefing Paper No. 10, April 2004 (with minor editing), [www.afrobarometer.org](http://www.afrobarometer.org)*

## 5.2 Explaining jobless growth experiences in Africa

Narrow-based economic growth combined with rapid population growth and labour market imperfections mean that Africa's growth rates consistently fall behind the growth rate needed to create adequate employment and reduce poverty. Africa's growth has relied mainly on capital-intensive sectors rather than labour-intensive ones. The nature of growth is as important as its quantity if Africa is to meet its employment and poverty reduction objectives.

The upturn in growth in Africa in 2005 was partially due to improved macroeconomic policy environments driven by high commodity prices. This boosted output, producer income and government revenue. In addition, there has been a sharp increase in resource transfers due to either increased aid inflows or rising remittances from the African diasporas. However, growth has been jobless, as indicated by

persisting high levels of unemployment in Africa. Most of those employed in Africa are in the informal sector, which has few if any linkages with the formal sector, and where the employment multiplier effects of each job created tends to be much lower than in the formal sector (UNECA 2005).

Efforts to diversify African economies away from natural resource dependence, as discussed in this chapter, must be accompanied by well-designed and effectively implemented employment programmes as well as measures to mainstream employment in national PRSPs. A complete analysis of Africa's experience of jobless growth and actionable policies must address both the supply-side and demand-side constraints behind the poor performance of labour markets on the continent.

### **The supply side: demography, education and health**

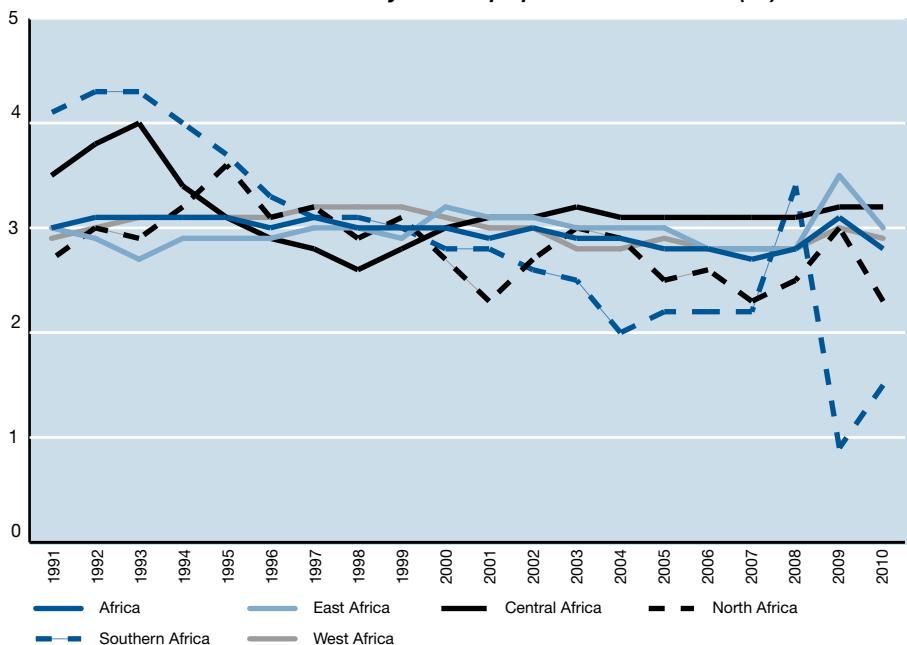
Long-term trends in employment are determined by the structure of an economy. Unemployment is determined by the balance between the demand for and the supply of labour. Labour supply depends mainly on changes in the economically active population, which are determined by the size of the working-age population and the extent to which that population decides to participate in the labour market. The long-term trends in labour supply are always subject to short-term variations caused by temporary economic circumstances. These variations consist mainly of people entering and leaving the labour market.

The demographic transition is lowest in Africa, where the population growth rate stood at around 3 per cent or more up to the end of the 1990s and has remained around 2.4 per cent since then. High population growth and growing labour participation has resulted in high growth in the supply of labour on the continent, which has continued to outstrip growth in demand for labour. Over the past 20 years, the economically active population of Africa has grown at an average rate of 3 per cent, rising from 231 million in 1990 to 403 million in 2009, which represents a 43 per cent increase, one of the highest increases among all regions of the world. The pace of growth in the economically active population seems uniformly distributed across the continent, with North Africa recording a low growth rate at 2.9 per cent while Central Africa achieved the highest growth rate at 3.2 per cent (figure 5.2). This dynamic has resulted in high supply pressure in the labour market.

*Employment programmes and measures must be mainstreamed in national development plans and PRSPs*

*High participation rate resulted in high supply pressure in the labour market*

**Figure 5.2**  
*Growth rate of the economically active population in Africa (%)*



*Source:* Data generated from ILO (2009d).

During the same period, school enrolment has increased in Africa, and the gender gap has narrowed. Between 1991 and 2007 the net enrolment ratio in primary education rose from 53.7 per cent to 74 per cent in sub-Saharan Africa and from 82 per cent to 96 per cent in North Africa (United Nations 2009). There are higher attrition rates among girls at higher primary grades and in secondary and tertiary education. The health of working-age people in Africa is improving. In a nutshell, there are more better-educated people with improved health status entering the labour market each year.

### Steady growth, but weak labour market performance

While the supply of labour has grown rapidly, growth in labour demand has been very sluggish. Undoubtedly one of the major causes of the slow pace of employment generation has been that Africa's average growth rate continues to fall short of the 7.0 per cent widely believed to be the minimum rate at which the continent must grow to reduce poverty and improve living conditions. But most importantly, the employment intensity of growth has been low because growth remains both narrowly based and volatile owing to the continent's continued high dependence on commodity production and exports and lack of economic transformation.

There was synchronized growth among advanced and developing countries after 2001 that lasted until the recent economic crisis. Global growth raised demand for and the prices of Africa's commodity exports, so that many African countries grew at rates not seen since the 1970s. Yet sub-Saharan Africa recorded only a 0.8 per cent decrease in unemployment, compared to 2.9 per cent in North Africa (table 5.5). As discussed in chapter 4, economic performance between 2001 and 2008 was underpinned by commodity revenue as well as a surge in aid, remittances and other private capital flows that fed an investment boom primarily channelled into extractive sectors such as mining.

**Table 5.5**  
*Labour market indicators, world and regions*

Regions	Change in unemployment rate (percentage points)	Unemployment rate (per cent)			GDP growth rate (per cent)			Employment-to population rate (per cent)		Annual Labour force growth rate (per cent)	Annual GDP growth rate (per cent)
		2002-2007*	1997	2006	2007*	2006	2007*	2008p	1997	2007*	1997- 2007*
World	-0.5	6.1	6.0	6.0	5.4	5.2	4.8	62.6	61.7	1.7	4.2
Developed economies and the European Union	-0.9	7.4	6.3	6.4	2.9	2.5	2.2	56.2	56.4	0.7	2.6
Central and South-Eastern Europe (non-EU) and Commonwealth of Independent States	-1.3	10.7	8.5	8.5	7.3	7.2	6.6	53.7	54.1	0.6	5.3
East Asia	-0.4	3.7	3.4	3.3	10.1	10.4	9.1	74.9	71.9	1.0	8.4
South-East Asia and the Pacific	0.1	4.0	6.2	6.2	6.2	6.0	5.8	67.2	66.4	2.5	4.1
South Asia	0.1	4.7	5.1	5.1	9.1	8.4	8.0	58.2	56.7	2.4	6.4
Latin America and the Caribbean	-0.4	8.0	8.5	8.5	5.5	5.0	4.3	59.0	60.0	2.4	3.3
Middle East	-1.1	13.0	11.8	11.8	5.3	5.5	5.6	46.0	50.1	4.9	4.5
North Africa	-2.9	11.7	11.0	10.9	6.5	6.1	6.8	43.7	45.3	3.3	4.9
Sub Saharan Africa	-0.8	8.5	8.2	8.2	5.3	5.8	6.5	69.1	68.1	3.0	4.1

*Source:* ILO, *Global Employment Trends*, 2008.

The persistent concentration of investment and growth in the capital-intensive extractive sector results in low labour absorption. The extractive sector is largely an enclave economy with few if any linkages to the rest of the economy. Most African economies have limited investment in the high-value-added, employment-intensive manufacturing sector, which is capable of absorbing excess labour from agriculture.

**Lack of effective industrial policy led to deindustrialization in Africa over the past three decades**

On the policy front, the absence of coherent and consistently applied growth and development strategies has limited both economic transformation and growth in jobs. Over the last two decades African governments have, often on advice from donors and multilateral development institutions, concentrated on macroeconomic stability and institutional reforms to protect property rights and ensure contract enforcement, with no coherent strategies to address market failures and externalities that constrain economic activity (Elhiraika 2008). Indeed, the lack of effective industrial policy to support domestic manufacturing has led to the deindustrialization of Africa over the last three decades (AUC, 2008).

Evidence shows that industrial and trade policy can stimulate economic growth and restructuring by assisting new industries to emerge, improving the competitiveness of local industry and attracting foreign investment in manufacturing through fiscal, exchange rate and credit policies that reduce costs and enhance profitability. An improved institutional and policy environment would reduce costs, create comparative advantages for new industries and lead to the reallocation of resources in favour of more competitive industries (UNECA 2005).

Traditionally, in many African economies, the State has been the main employer. However, the share of the public sector in total employment has been declining as a result of structural reforms (privatization) and government downsizing. In many African countries governments have ceased to own industries, although large public energy schemes and agricultural projects are common. Demand for labour has increasingly shifted towards enterprises that look for individuals with specific and practical skills who can operate in the evolving workplace.

The share of the formal private sector has also been declining in many countries because most African governments have ceased to implement policies that subsidize capital through interest rates and credit, trade and exchange rate policies, while increasing the cost of production through labour market regulation (UNECA 2005). While market-based reforms have recently resulted in greater labour market flexibility and an improved business environment across the continent, domestic investors often find it difficult to compete with cheap imports, especially from emerging economies such as China. This has constrained domestic investment and demand for labour and highlighted the need for effective industrial strategies to support private-sector development and global competitiveness.

Indeed, there is a need to reduce the cost of production in Africa if governments are to encourage increased demand for labour in high-productivity manufacturing industries. Promoting investment in high-productivity manufacturing and services sectors would help absorb excess labour in agriculture, which employs the majority of African workers. Low investment in agriculture and high-productivity labour-intensive industrial sectors has constrained economic diversification and transformation as well as labour

demand and employment in Africa. Also, labour markets in many African countries continue to suffer from market failures. There are few institutions to coordinate labour demand and supply. Many job seekers are not informed about vacancies in the private sector, and therefore do not search for them (UNECA 2005).

Taking into account the above challenges, Africa will need coherent strategies and sustained reforms to address both demand-side and supply-side constraints in the labour market. Demand-side policies must focus on stimulating private-sector development and investment in labour-intensive high-value-added manufacturing and services sectors as well as modern agriculture. This requires the design and implementation of effective industrial strategies that reduce cost and improve competitiveness in a globalized market. Experience in East Asia provides a framework for African countries to design and implement successful industrial strategies that take into account their unique opportunities and constraints. The process of industrialization in East Asia, like that of Africa, began with import substitution strategies but successfully shifted to export promotion through a combination of policy, institutional and structural reforms (UNECA 2006). In addition to promoting macroeconomic stability, efficient financial systems and openness to foreign trade, East Asian countries provided support to new export-oriented industries through directed credit, training and technical skills development among other measures. Large-scale investment in human capital and new technologies brought about significant gains in productivity and international competitiveness in East Asia, where governments employed export promotion strategies that were regularly audited and reviewed in accordance with well-defined targets (Elhiraika 2008).

The structural changes that took place in Africa failed to promote job creation because of a lack of employment-focused macroeconomic and sectoral strategies. In Egypt, after nearly five decades without industrial and employment strategies, economic changes have been characterized by both high unemployment and structural imbalances (Alahwani 2009). First, there is a mismatch between demand for and supply of labour in terms of both size and qualifications. This has resulted in a qualification deficit as well as high unemployment. Second, there has been a shift in investment and labour demand in favour of services sectors at the expense of the commodity and manufacturing sectors. Third, there have been rapid increases in employment in the informal sector and dwindling formal wage employment. The informal sector is characterized by low productivity and income as firms lack access to credit, technology and export services. As a result, the average real wage in Egypt declined consistently, leading to greater working poverty, especially among women.

As in Egypt, besides limited industrial investment that restricts labour absorption, Africa's labour markets are generally characterized by a mismatch between labour skills on offer and the skills needed by employers. This is especially the case among young people. African young people have low skills profiles that do not necessarily match the demands of the labour market. The literacy and numeracy skills imparted

*Limited structural changes in Africa failed to promote job creation owing to lack of employment-focused macroeconomic and sectoral strategies*

**Skills mismatch  
is a major cause  
of high youth  
unemployment in**

**SSA**

by primary education are inadequate for a changing labour market based on cognitive skills acquisition, as provided by post-primary education.

Indeed, one of the causes of high youth unemployment in sub-Saharan Africa is the inability of education systems to produce graduates with the skills that are demanded in the labour market. Other factors include a small private sector, a saturated public service, high drop-out rates, and in some cases conflicts. Girls are more affected by labour market conditions than boys because they face many more constraints. For example, they are less likely to move far away from home in search of jobs, and most societies still believe that a girl's place is at home, and not in public arena. Additionally, young mothers have to juggle domestic and work responsibilities.

It is generally recognized (and it is a key principle underlying the ILO Decent Work Agenda) that the development of relevant skills is an important instrument for improving productivity and working conditions, as is the promotion of decent work in the informal sector, the major employer in Africa (AEO 2007/2008). African countries need to work towards improving the quality and skills of their labour force. Improving technical and vocational skills is crucial to enhancing competitiveness, as well as social inclusion, decent employment and poverty reduction.

Important reforms to promote vocational and technical skills have been initiated in both the formal and informal sectors in a number of African countries, reflecting a new and more integrated approach to education, training and employment, but efforts are still inadequate. Multiple constraints, such as an inability to adapt programmes to the needs of African economies and fragmented training among different agencies, still hamper the progress of technical and vocational skills training reforms. Other limitations include poor delivery capacity and a lack of funding, and the fact that the programmes are normally implemented on too small a scale to have a significant impact (AEO 2007/2008).

## 5.3 Paid employment and decent work in Africa

The number of working poor in Africa remains extremely high. The majority of the poor work in informal self-employment and as contributing family workers in agriculture. To respond to these challenges, African countries need to mainstream employment and decent work in their national development strategies and policies. In this regard, several declarations and commitments to promote decent work have been made by African heads of State and government at a summit convened by the African Union in collaboration with ILO (box 5.2).

## **Box 5.2**

### ***Declarations on a Global Jobs Pact and a Decent Work Agenda***

In recognition of the importance of employment to development, the World Summit for Social Development in 1995 adopted the Copenhagen Declaration and Programme of Action. The Programme of Action contains 10 commitments, among which is promotion of the goal of full employment as a basic priority of economic and social policies (Commitment 3) (Mutangadura 2006).

In Ouagadougou in September 2004, at the African Union Summit on Employment and Poverty Alleviation in Africa, African heads of State and government endorsed the Decent Work Agenda by adopting a Declaration, a Plan of Action and a Follow-up Mechanism calling for commitments by States to place employment at the centre of economic and social policies.

#### **Summary of the Ouagadougou Plan of Action**

The Ouagadougou plan of action concentrates on four areas. The first is the policy environment, and relates to the need to ensure political leadership and a commitment to create an enabling environment of good governance. This also includes better environments for resource mobilization and the development of frameworks for integration and harmonization of economic and social policies. The second and third areas cover sectoral approaches and institutional partnership. Sectoral approaches encompass the promotion of agriculture and rural development as well as the utilization of sectors with high employment potential, while institutional partnership encompasses the building of human and institutional capacities for employment creation, international cooperation and partnership in addressing the employment agenda and strengthening cooperation among regional economic communities. The final area is that of social protection and vulnerability, which implies the development of social safety nets and the empowerment for women in the labour force as well as vulnerable groups (AUC 2004).

Five years on, the first report on progress in the implementation of the Ouagadougou Plan of Action was deliberated upon by the seventh ordinary session of the African Union Labour and Social Affairs Commission (Addis Ababa, October 2009). Its report notes that while progress has been registered in implementing the Ouagadougou summit commitments, a lot more needs to be done to alleviate poverty and create jobs. Part of the problem cited is the diversion in resource use needed to meet the challenges of the global crisis.

A follow-up symposium was held in Ouagadougou on 1 and 2 December 2009. The primary goal of the symposium was to provide an opportunity for the key actors in the economy-workers, employers and governments- to interact to ensure an effective recovery in Africa from the global and economic crisis. It was noted that trends of pervasive and persistent poverty, unemployment and underemployment still exist on the continent. In the interests of a tangible improvement in the living standards of the people and their families at the national and community level in Africa, the symposium called on African countries to adopt and implement the Global Jobs Pact as part of their crisis-related recovery packages.

The Global Jobs Pact is a crisis response framework designed to guide national and international policies aimed at stimulating economic recovery, generating jobs and providing protection to working people and their families.

Despite not being “a one size fits all” model, it provides a wide range of responses premised on the universally accepted Decent Work agenda, guided by the 2008 Declaration on Social Justice for a Fair Globalization. The principles of the Global Jobs Pact for promoting recovery and development, within which countries can formulate their nationally applicable policy packages, are the following:

*“Creating decent  
jobs is the key  
route to reducing  
working poverty  
in Africa”*

**“**  
Decent work agenda  
should be translated  
into an action plan  
that is effectively  
implemented and  
monitored  
**”**

- Employment and building social protection
- Support to vulnerable women and men hit hard by the crisis, including youth at risk, low- wage, low- skilled, informal-economy and migrant workers
- Employment and facilitating job transitions and access to the labour market for the jobless
- Social dialogue, tripartism and collective bargaining
- Economic, social and environmental sustainability
- Regulation of market economies to enable sustainable enterprises and employment
- Strengthened policy coherence at the international level.

*Source:* ILO (2009).

Important analytical support for decent work as a development strategy for Africa came from the 2005 ECA Economic Report on Africa, which focused on “Meeting the challenges of unemployment and poverty in Africa”. The report states that decent employment strengthens the link between economic growth and poverty reduction. Prerequisites for creating decent employment include the transformation of African economies from low-productivity traditional agriculture to labour-intensive high-value agriculture and agro-processing and promoting the growing industrial and services sectors, taking advantage of globalization’s opportunities. Political leadership is required in managing African economies to give priority to broad-based employment creation in national development programmes, including poverty reduction strategies.

Because decent work is a major route out of poverty, it should be at the heart of every development strategy and should be successfully translated into action. As of 2009, 34 out of 53 African countries had full or interim PRSPs. In 2004, only 21 countries had full PRSPs, with 17 having identifiable core sections on employment (UNECA 2005).

However, the countries of sub-Saharan Africa put more emphasis on human development (health and education) than the link to the labour market. It was noted that there are also inadequate or hard-to-quantify employment indicators in the policy matrix of PRSPs in sub-Saharan Africa than in other regions, and that there were few indicators for qualitative employment and no indicators for quantitative employment. More important, in most such PRSPs, only a few countries provide a budget for financing employment strategies and activities. However, the most recent PRSPs, especially those of second generation, have more employment content than the older ones, (Tibitanzi 2006). There is a need for effective implementation and monitoring as well as transparency and accountability on the part of policymakers if African countries are to strengthen the employment impact of their development programmes.

Moreover, it is essential to future development policy for governments throughout the continent to give priority to the collection of data on employment. Up to

the mid-1990s, many governments in Africa carried out annual employment and earnings surveys. By the end of the decade almost none did. The absence of such surveys cannot be explained either by their expense or difficulty, because almost all the governments, with the support of donors and lenders, implemented much more difficult and expensive household surveys, usually linked to their PRSPs. The most likely reason for the absence of employment data, even in countries where they had previously been regularly collected, is perhaps political. Since the 1980s, poverty surveys became more consistent with donor and lender priorities than employment surveys, at a time when declines in employment made the collection of employment data a possible embarrassment.

*Absolute and relative poverty increased due to the global economic crisis*

## 5.4 Impact of the financial and economic crises on employment

### Impact on inequality

Absolute and relative poverty are likely to rise as a result of the global financial and economic crises. Income disparities are projected to rise in most regions of the world. Owing to its negative impact on public revenues, the crisis may lock poor individuals and their families in intergenerational poverty traps and cause long-term increases in inequality. Indeed, although comprehensive data are not yet available, the experience of past crises indicates that low-income groups are disproportionately affected. There are already signs of worsening income distribution: global growth in real wages slowed significantly in 2008 as a result of the crisis and was estimated to have fallen even further in 2009 regardless of the speed of the economic recovery (ILO 2009b).

The sharp contraction of the global economy due to the financial crisis has negatively affected labour markets. Global unemployment was projected to rise by 21–50 million in the worst-case scenario (ILO 2009b).<sup>3</sup> Globally, it was estimated that an additional 53 million people in developing countries will fall into poverty on top of the figure of 130–155 million generated by the food and oil crisis in 2008 (2009b). The crisis threatens to reverse many of the gains made by African countries and their development partners over the last seven years in meeting the MDGs.

The percentage of African workers earning less than US\$ 2 per day was projected to increase from 82.2 per cent in 2007 to 86.6 per cent in 2009. This will represent 27 million new poor people in 2009. The reduced growth in sub-Saharan African countries will cost the 390 million living in extreme poverty about 20 per cent of their

<sup>3</sup> See the definitions of worst and best employment scenarios in chapter 1.

per capita income (or US\$ 46 per person). These impacts are being felt mainly as a result of reduced demand and prices for Africa's commodity exports, which means lower incomes for domestic producers as well as cuts in government services. Tourism industry receipts also declined substantially in many countries.

The extractive industry has been the hardest-hit. In the Democratic Republic of the Congo, the closure of 40 mines led to the loss of 300,000 jobs in the province of Katanga alone. In Zambia, 3,000 jobs have been lost since December 2008 as copper mines and smelters ceased operations. In Swaziland, unemployment rose because of retrenchment of mine workers in South African gold and platinum mines. Similar difficulties have been observed in other countries such as Botswana, South Africa and Zimbabwe, where mining accounts for a large share of economic activity. In the Central African Republic, about 1,300 employees lost their jobs following the closure of processing units in the timber sector.

For small countries the closure of extractive enterprises can be quite devastating, as seen in rutile and iron ore mining in Sierra Leone. When demand falls, international companies respond by suspending production in their relatively high-cost plants and mines. For a large country this will have a major impact at the local level, but a minor impact nationally. For a small country, it can have a significant impact on foreign exchange earnings as well as employment. While job destruction and structural changes are normally associated with job creation in other sectors, this process has almost always led to net job losses in Africa over the last two decades, especially in terms of wage employment.

Manufacturing, construction and service industries were also hit severely. The manufacturing sector has been affected by declining global demand and increases in the cost of imported inputs, due in part to currency depreciations. Factories are therefore running at lower capacity and employment has been seriously threatened. For example, in Uganda, the Manufacturers Association reported that 15 factories closed in 2008 owing to the high cost of doing business. Most of the firms were in the fish, leather processing, and grain and tobacco sectors. Lesotho is experiencing a decline in clothing and textile exports after a recovery at the end of the Multifibre Arrangement in 2005.

### **Impact on the working poor**

Estimates of the proportion of those employed but poor (the working poor using the broader measure of working poverty, US\$ 2 a day) show that 80 per cent of those employed were classified as working poor in sub-Saharan Africa in 2007. Owing to the crisis, there is a likelihood that there will be a rise in the number of people taking up any type of employment, and a rise in the number of people joining the ranks of

*Youth unemployment can pose a huge security risk in Africa*

the working poor and those in vulnerable employment in developing nations. North Africa will experience the largest increase in working poor under the worst-case scenario (ILO 2009a).

The economic downturn is affecting poor households through intensified under-employment and lower real wages. These trends may be exacerbated by a shrinkage in public services if governments respond to falling revenues with expenditure cuts. As a consequence, many households will fall below the poverty datum line, thereby increasing the number of the working poor.

The shares of the working poor using the US\$ 2 baseline are as high as 82.2 per cent in sub-Saharan Africa and 30.2 per cent in North Africa (table 5.6). With generally high incidences of unemployment, underemployment and probably a significant degree of labour discouragement, the overall picture that emerges is one of extreme poverty on the continent.

**Table 5.6**  
*Indicators of working poor in North Africa and sub-Saharan Africa*

	1997 (Total numbers in millions)	2002	2007	1997 Share in total employment (per cent)	2002	2007
<b>US\$ 1.25 a day baseline</b>						
North Africa	5.2	6	5.9	11.7	11.8	9.8
Sub-Saharan Africa	140.3	154.4	165.6	65	62.7	58.3
<b>US\$ 2 a day baseline</b>						
North Africa	18.8	18.9	18.2	42	37.1	30.2
Sub-Saharan Africa	184.2	208.5	233.5	85.4	84.7	82.2

*Source:* ILO 2009a, January.

### **Impact on women, young people and other social groups**

As indicated above, vulnerable employment decreased in North Africa by 5.8 points between 1997 and 2007 and by 3.5 points in sub-Saharan Africa during the same period. But it remains extremely high and could reach 77.8 per cent and 42 per cent of employment in 2009 in sub-Saharan Africa and North Africa respectively, as indicated previously.

Youth unemployment can pose a huge security risk to a country's or a continent's peace and development. Young people's energy, enthusiasm and youthfulness must be effectively utilized and channelled into the country's or continent's development. Technical and vocational education is one of the conduits which is not properly exploited in many African countries to decrease unemployment.

**The African  
poor bear the  
brunt of the crises  
because of lack of  
social safety nets**

While unemployment effects are global, in Africa it is the poor that bear the brunt of the crisis because of the lack of social safety nets. Thus, recovery measures as well as long-term growth and employment strategies should pay special attention to vulnerable groups, including women, young people and the rural poor. Indeed, as some African countries have already recognized, there is a need for such protection for vulnerable groups as directed credit, grants and conditional cash transfers to support employment in small and informal businesses and safeguard their access to basic services (see chapter 6).

People with disabilities, older workers, ethnic minorities and migrants will suffer in some of the same ways as women because they share some of their characteristics in the context of the labour market. Older workers who lose their jobs are also likely to be more affected by the crisis than the other groups, because they have fewer chances of securing another job. In addition, existing evidence indicates that they suffer greater losses in salary once they find a new job (World Bank 2009b).

In short, it is important to ensure that development strategies promote equality of opportunity and encompass measures as well as robust implantation and monitoring mechanisms to protect women, young people and other vulnerable categories of workers in both public and private sectors. Protection measures should be particularly sustained during the economic downturn, as the vulnerability of these groups increases during such times.

## 5.5 Strategies for reducing unemployment and enhancing progress towards the MDGs within a new growth framework

This section discusses strategies to strengthen the growth-employment nexus at both the macroeconomic and the sectoral levels. Targeting employment is a critical component of the growth and development strategies and policy proposals discussed in chapter 4. The first section of this chapter has highlighted the magnitude and nature of the unemployment problem in Africa and underscored the need to mainstream employment objectives in Africa's growth and development plans in order to avoid a repetition of past experiences of largely jobless growth and move the continent closer to its full employment potential in the long run.

Government policies are also critical to enable African countries to moderate the effect of external shocks such as the recent economic crisis on employment and cushion their impact on vulnerable groups. Promoting fast and sustained growth and more equitable distribution of the benefits of such growth is a prerequisite for

job creation and poverty reduction in the long run. In this context, a central goal of sustained recovery from the recent crisis should be the reconstruction of viable, employment-intensive sectors, especially outside agriculture, throughout the continent. This could be the medium-term complement to the countercyclical recovery programme to mitigate the growth decline caused by the global contraction.

### **5.5.1 Elements of a long- term employment strategy**

To begin with, designing and implementing effective long-term employment and poverty reduction strategies requires employment targets that are easy to measure and monitor. In this regard, it is essential to future development policy in Africa that governments should give priority to the collection of data on employment. The analysis in this chapter suggests that more complete and timely employment data are required for African countries to be able to design and effectively implement and monitor sound employment strategies. Since the mid-1990s, the majority of African countries have abandoned the holding of annual employment and earnings surveys. Employment surveys and statistics provide the basis to enable governments to periodically assess why announced employment targets were not met in the previous years, and what should be done to make employment a priority issue at both national and local levels.

African leaders and policymakers have repeatedly recognized employment as a catalyst in growth and poverty reduction and made many declarations on mainstreaming employment in national development plans. However, most African countries still lack coherent and coordinated growth and employment strategies and also lack the necessary political commitment to implement and monitor employment targets agreed upon in their national development strategies. Employment generation is rarely a priority for governments. This needs changing. Governments should not only have the responsibility to make declarations and statements on employment generation, they should also translate employment strategies into action.

Employment strategies should aim at promoting not only more job opportunities but decent work, thus reducing poverty and the number of working poor. Doing so requires detailed macroeconomic and sectoral policies to influence labour demand and supply by promoting high and sustainable growth and introducing labour market reforms. An employment-focused growth framework would be effective to the extent that it allocated public investment to infrastructure and other projects that facilitate private investment in high-productivity sectors in both urban and rural areas so as to facilitate broad-based growth and economic transformation. It should also increase equity in the distribution of opportunities and income, with special attention to vulnerable and traditionally disadvantaged groups in Africa, especially women and young people. “If the high-quality growth occurs in labour-intensive sectors, includ-

**“**  
*Government  
should make  
targeted  
interventions to help  
the poor improve  
their human capital  
and access to  
productive assets*  
**”**

ing agriculture, labour-intensive manufactures, construction, textiles, and services, the increase in employment would have a positive effect on the working poor and their non-working dependants as well as on the unemployed poor in terms of higher productivity, higher incomes in existing employment or from self-employment, or shift to new and more rewarding occupations” (Nnadozie 2009:20). Successful growth and employment experiences around the world indicate that increased investment in the dynamic non-extractive non-agricultural sectors is a conduit to more and better-paid employment opportunities in the formal sector.

For the poor in these countries to benefit from growth, governments should, in addition to promoting employment-generating investment, make targeted interventions to help them improve their educational and skill levels, as well as their access to capital and productive assets. This requires high-level coordination across ministries and government departments as well as effective participation by various stakeholders in setting policy priorities, monitoring progress and assessing policy effectiveness. Educational and training programmes should be designed to provide young men and women especially with the skills required by employers. In this regard, South Africa’s experience with Expanded Public Works Programmes could provide a good example for other African countries to emulate in their pursuit of enhanced growth and employment generation (box 5.3).

### **Box 5.3**

#### ***Generating employment through the Expanded Public Works Programme (EPWP) in South Africa***

The EPWP was launched in 2003, aimed at addressing unemployment in South Africa. The magnitude of South Africa's unemployment crisis was such that in September 2003, 4.6 million people were unemployed under the strict definition of unemployment and 8.3 million under the broad definition. The EPWP is one of the South African Government's short-to-medium-term programmes aimed at the provision of additional work opportunities coupled with training. It is a national programme covering all spheres of government and State-owned enterprises.

The main objective of the programme was to alleviate poverty through training of poor unemployed people. The immediate goal of the EPWP was to alleviate unemployment for a minimum of 1 million people, of whom at least 40 per cent would be women, 30 per cent young people and 2 per cent disabled, between 2004 and 2009.

To achieve this goal, the Government would:

- Create temporary work opportunities and income for at least 1 million people over the five years of the programme
- Provide public goods and services, labour-intensively, at acceptable standards, mainly using public-sector resources and public and private-sector implementation capacity
- Increase the potential of participants to earn a future income by providing work experience, training and information related to local work opportunities, and further education and training, and facilitating the development of small medium and micro enterprises.

This goal was to be achieved by creating work opportunities in the following four ways:

- Increasing the labour intensity of government-funded infrastructure projects
- Creating work opportunities in public environmental programmes (e.g. Working for Water)
- Creating work opportunities in public social programmes (e.g. jobs for community care workers)
- Utilizing general government expenditure to purchase goods and services to provide the work experience component of small enterprise leadership and incubation programmes.

The EPWP covers the infrastructure, environment and culture, social and economic sectors. Each of the sectoral programmes is focused on the unemployed (those able and willing to work), the marginalized, the under skilled, people not receiving social grants, women, people living with disabilities and young people (estimated at 70 per cent unemployed in 2004).

The key objectives of the programme were to:

- Draw significant numbers of the unemployed into productive work to enable them to earn an income
- Provide unemployed people with education and skills
- Make an effort to assist beneficiaries either to set up their own business or service or to become employed once they exit the programme
- Utilize public-sector budgets to alleviate unemployment
- Create social and economic infrastructure and provide social services as a means of meeting basic needs. This is a critical objective from the perspective of evaluating the programme's impact.

**“South Africa’s expanded public works programme is an example of best practices in employment generation”**

In addition, the EPWP document provided guidelines in respect of:

- Identification of suitable projects
- Appropriate design for labour-intensive construction
- The specifications of labour-intensive works
- The completion of contract documentation for labour-intensive projects.

The funding of the programme came from earmarking funds in the budgets of various departments, provinces and municipalities. This gave the programme access to substantial resources and enabled it to be carried out on a large scale.

#### **Scope of EPWP's monitoring and evaluation framework**

Objective	Measure
Over the first five years, to create temporary work opportunities and income for at least 1 million unemployed South Africans	Total number of job opportunities for women, young people and the disabled Person-days of work Average income of EPWP participants per sector
To provide public goods and services, labour-intensively, at acceptable standards, mainly through the use of public-sector budgets and public and private-sector implementation capacity	Cost of goods and services provided to standard in the infrastructure, environment and culture, social and economic sectors Cost of each job created
To increase the potential for at least 14 per cent of public works participants to earn future income by providing work experience, training and information related to local work opportunities, further education and training and development of small, medium and micro enterprises	Percentage of participants at the point of exit to secure <ul style="list-style-type: none"> <li>• Employment</li> <li>• Education or training</li> <li>• A small, medium or micro enterprise</li> </ul>

The evaluation of EPWPs, five years after the start of implementation, found that the programme had achieved a significant milestone when it reached and surpassed the target of creating 1 million labour-intensive work opportunities a year ahead of the scheduled five years. The programme had also exceeded its targets for young people and women as 40 per cent of young people and 47 per cent of women found work against targets of 30 per cent and 40 per cent.

Lessons learnt from the five years of implementing the EPWP have convinced the Government of South Africa of the need to continue with the programme, and so the second phase was launched in April 2009. EPWP Phase Two has a scaled-up budget and is expected to create 4.5 million jobs by 2014.

**Source:** [www.epwp.gov.za](http://www.epwp.gov.za)

In short, Africa's public sector must take the lead in developing a long-term strategy for economic diversification and development which are employment-intensive. The key aim of such a strategy is to significantly increase the employment elasticity of growth and promote decent work. Prior to the 1980s, most governments in Africa had development strategies, and 30 years later, it is necessary to re-create them with a greater focus on environmental sustainability, poverty reduction and employment

*Long-term economic transformation strategies must include employment-intensive public investment in infrastructure, human capital development, labour market reform and industrial policy*

intensity. Part of the reformulation would specify the constraints and drivers of employment growth, especially at country level.

In addition to employment-intensive public investment in infrastructure, human capital development and labour market reforms (to reduce private-sector costs and increase competitiveness), long-term employment strategy must include an industrial policy to stimulate private-sector investment and development and foster diversification, especially into manufactures. Moreover, the long-term employment strategy must include a consistently applied countercyclical fiscal policy, focused on flexible public employment projects.

Elements of successful industrial policies for economic diversification and employment creation in Africa, as summarized by Elhiraika (2008: 15-16), must include the following key elements:

- Measures to promote entrepreneurship and address market failures. Entrepreneurial skills, including management skills, risk-taking and the ability to perceive and exploit profitable opportunities, are essential for firms to undertake investment, generate and manage technological change and compete in domestic and foreign markets. Botswana provides an encouraging example of active State involvement in the development of domestic enterprises designed to facilitate long-term private-sector-led economic diversification and employment creation
- Providing incentives for productive diversification by addressing information and coordination externalities. Information externalities arise because new activities that might be profitable in the future are often not feasible in the light of existing information. The promotion of such activities requires government support through research and development, selective taxation, financing, regulation, etc. Coordination failures call for an active industrial policy because many projects require large-scale investment in order to be feasible (Rodrik 2004:12). Examples include the promotion of horticulture in East Africa, which requires simultaneous investment in farms, energy, transport and marketing facilities
- Institutional arrangements that facilitate continuous collaboration between the public and private sectors to identify bottlenecks and remedies
- Promoting regionally integrated value chains and markets to enhance investment in manufacturing and other sectors as well as industrial competitiveness and regional economic transformation
- Noting that industrial policy is feasible under the current international rules of the game, coordination among African countries is essential to ensure that trade negotiations and economic partnership agreements do not constrain opportunities for industrial policy and transformation

**Mauritius and Botswana provide two examples of best practices in promoting industrial policy**

- Institutional building including high-level political support, coordination and deliberations councils, mechanism of transparency and accountability, and adherence to a set of designing principles (Rodrik 2004).

Finally, to reduce potential waste and ensure that industrialization is effective in creating jobs, all key stakeholders, including government, businesses, labour organizations and civil society, must play active roles in the preparation, implementation and monitoring of employment-generating industrial and other development strategies.

There are many examples in Africa that show that industrial policies remain relevant and can be made effective with sustained and well-targeted State intervention. For example, Mauritius has substantially transformed its economy, moving from a nearly single-good economy based on sugar to a more diversified economy based on manufactured exports and services (UNECA 2006). Through education and technical skills development, credit and export promotion and technology transfer strategies, the country was able to stimulate huge investment in manufacturing and other sectors and reduce dependence on agriculture to less than 7 per cent of GDP by 2008. Economic transformation in Mauritius eventually attracted huge capital inflows and foreign investment and fostered rapid job creation.

Industrialization in Mauritius was boosted by investment in export processing zones, which was initially dominated by domestic capital. The boom in sugar and export earnings in the 1970s stimulated investment in joint ventures between domestic and foreign investors in such zones, taking advantage of promising conditions such as tax holidays and duty-free imports as well as other reforms that created an attractive business climate. Currently, Mauritius ranks high both in Africa and globally in terms of ease of doing business, and its economic transformation has benefited from an expanding tourism sector.

Botswana is another country where industrial development remains a priority. It has a number of State-funded as well as non-governmental organizations involved in enterprise development. These include the Botswana Development Corporation, which provides financial support to medium-sized and large businesses and monitors their performance; the Citizen Entrepreneurial Development Agency, which provides funding and technical assistance for the development of viable citizen-owned enterprises in various sectors; the Local Enterprise Development Authority, which facilitates entrepreneurship and small and medium-sized enterprise development through targeted interventions in pursuit of economic diversification through business development services, access to technology, finance and infrastructure, networking and R&D; and the Hospitality and Tourism Association of Botswana, which provides assistance for business development in its area. The Community and Economic Development Agency and the Local Enterprise Development Authority

often work together to provide training to potential entrepreneurs and help them develop business plans.

### **5.5.2 Countercyclical employment generation**

In the context of the recent global financial and economic crises, and, more generally, the high vulnerability of African economies to external shocks, there is a need to design employment-focused countercyclical interventions that may not be limited to a few countries on the continent. The general macroeconomic framework of countercyclical policies has already been discussed. The discussion here is focused on how African countries could design an effective employment-focused countercyclical policy (see table 5.7). In reaction to the shock of the global contraction, an African economy suffers a fall in aggregate demand due to lower export prices and volumes. For the countries with developed financial markets, the export shock was accompanied by net outflows of portfolio capital. In those countries for which remittances constitute a substantial portion of foreign exchange inflows, especially small countries such as Liberia and Sierra Leone, the export decline was compounded by falls in international transfer payments.

With output, incomes and employment in decline, the rational response of governments is to increase public demand through more expenditure, in the shape of “cash for work” programmes in public-sector construction and maintenance projects. The size of the expenditure would be set to maintain GDP growth at the pre-shock rate. Wages in the projects would be set above the individual poverty level, and the goal of the employment would be to prevent a rise in poverty.

For example, it was estimated in the second half of 2009 that, owing to the global crisis, GDP growth in Egypt would decline from 6.9 per cent in 2008 to 4.3 per cent in 2009. The unemployment rate rose from 9 per cent to 9.4 per cent over the same period (Alahwani 2009). In addition to falling investment and growth rates, many firms reduced existing employment in order to boost profits. In November 2008, the Government of Egypt adopted a stimulus package worth about US\$3 billion to mitigate the impact of the crisis on growth and employment. Most of the stimulus went to public investment in infrastructure and services, and 60 per cent of it was allocated to local and rural development. Early assessment showed that the stimulus package, together with other favourable factors, helped the country to grow at 4.7 per cent in 2009.

Egypt was able to finance most of the stimulus package from its accumulated reserves and to a limited extent through domestic borrowing. Countries with limited or no reserves or access to external grants and loans may, however, rely heavily on domestic borrowing, which can result in increasing internal and external imbalances. To prevent the emergence of an unsustainable trade deficit, the fiscal expansion should

be accompanied by exchange rate adjustments. For petroleum-exporting countries, which operate with fixed exchange rates, the effect of the devaluation will be limited to import reduction. In the other countries, the effectiveness of the policy package as a whole will be determined in part by the elasticity of exports with respect to the real exchange rate. The least favourable conditions for an effective policy outcome would apply in a country with a high import share in GDP and low exchange rate elasticity of exports. The latter would imply that a large nominal currency adjustment would be necessary to generate a substantial export response, and the former would transmit that large adjustment into proportionately substantial inflation.

A successful outcome of the employment-focused stimulus requires a careful balance between fiscal expansion and exchange rate adjustment. It would be dangerous to seek the necessary balance by trial and error. The policy package should be based on empirical estimation of key parameters, which could be used to construct a basic simulation model. Such a model has been constructed to guide the stimulus package implemented by the government of Sierra Leone in the second half of 2009 (Weeks 2009; Jumah and weeks 2009). The fact that it was possible to construct a model for such an underdeveloped country with extremely limited statistics owing to a decade of conflict indicates that it can be done for almost all countries.

However, it deserves emphasizing that the analysis and employment strategies advocated in this chapter are general for Africa and may not be suited to all countries. Africa is a diverse continent with diverse resources, constraints and opportunities. This calls for country-specific growth and employment strategies that are tailored to address each country's needs and can be implemented against the background of resource and institutional constraints and development priorities. In this regard, the next chapter provides more detailed country-specific analysis and policy recommendations on how to strengthen the growth-employment nexus and achieve fast and sustainable growth to reduce unemployment.

**Table 5.7**

*A policy programme for African governments to mitigate the employment impact of external shocks*

External shock from financial crisis >>	Domestic consequences >>	Countermeasures by the public sector	Method of implementation	Consequences of policy measures	Constraints and dangers and their management
Fall in export earnings, import prices and remittances	Decline in aggregate demand, with import prices falling more than domestic prices; lower export incomes	Goal/objective: Neutralize the external shock  ↓			
		Increase government expenditure (countercyclical and temporary) >>>	Priority to “cash for work” programmes >>>	Target of enough new jobs to keep poverty from rising	Unsustainable domestic debt [set deficit rule]
		Currency depreciation/devaluation to stabilize the trade balance (stimulate exports and reduce imports) >>>	Temporary exchange rate management for the real exchange rate to depreciate enough to be effective for trade purposes but not excessively inflationary >>>	Recovery of exports	Inflationary spiral [set devaluation rule]

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## Annex

**Table 1**

*Employment-to-population ratio in Africa, men and women 2005-2007 (%)*

Country	Men			Women		
	2005	2006	2007	2005	2006	2007
Algeria	67.1	69.3	69.1	28.8	30.5	31.7
Angola	82.9	82.2	82.4	68.7	69.2	69.4
Benin	85.6	85.4	85.0	57.8	57.8	58.2
Botswana	44.5	52.6	53.5	31.3	38.7	38.7
Burkina Faso	87.1	87.0	87.0	75.6	75.7	75.8
Burundi	82.9	82.9	83.1	83.5	83.4	83.3
Cameroon	70.4	70.2	69.3	49.3	49.4	49.0
Cape Verde	70.7	70.5	69.8	42.0	42.4	43.6
Central African Republic	80.4	80.2	80.4	63.1	63.1	62.9
Chad	71.6	71.6	71.6	66.8	66.6	66.3
Comoros	76.9	77.0	76.8	58.8	58.8	59.3
Congo	76.6	76.4	76.5	52.4	52.6	52.3
Côte d'Ivoire	80.8	80.6	80.6	38.3	38.2	38.1
Democratic Republic of the Congo	82.4	82.3	82.6	50.9	51.0	50.4
Egypt	84.4	84.2	84.7	17.2	17.9	18.2
Eritrea	78.9	79.0	79.0	52.1	52.1	51.7
Ethiopia	88.6	88.1	88.5	72.1	72.3	73.0
Gabon	65.3	65.0	65.4	52.7	52.7	52.6
Gambia	78.3	78.1	77.8	65.1	65.3	65.7
Ghana	66.1	65.6	66.1	64.4	64.5	64.1
Guinea	85.7	85.6	85.3	77.7	77.7	77.6
Guinea-Bissau	82.5	82.5	82.8	50.6	50.6	49.9
Lesotho	79.8	79.9	79.9	48.7	52.2	49.8
Liberia	62.9	66.2	64.2	52.9	53.0	53.2
Libyan Arab Jamahiriya	78.7	78.8	78.9	22.0	22.1	23.2
Madagascar	71.8	71.8	72.0	81.0	81.0	79.2
Malawi	87.6	87.3	86.8	69.1	69.2	69.0
Maldives	74.6	74.3	74.7	46.7	40.4	42.1
Mali	59.0	58.8	58.4	33.7	33.8	34.4
Mauritania	48.8	48.8	48.5	45.3	45.9	45.3
Mauritius	72.7	72.4	73.2	34.5	35.2	36.3
Morocco	71.4	71.9	71.8	22.3	23.3	22.2
Mozambique	71.7	71.4	71.3	82.1	82.2	82.2
Namibia	47.2	46.5	46.9	37.2	37.2	37.3
Niger	82.7	82.5	82.5	38.1	38.1	38.0
Nigeria	66.5	66.2	65.7	35.9	36.1	36.5
Rwanda	79.4	79.2	79.0	80.7	80.8	80.5
Senegal	74.7	74.8	74.5	56.3	56.3	56.9
Sierra Leone	64.2	63.9	64.3	63.6	63.8	63.4

Country	Men			Women		
	2005	2006	2007	2005	2006	2007
Somalia	81.5	81.6	81.8	50.3	50.5	50.7
South Africa	46.2	46.5	48.4	32.2	32.9	34.3
Sudan	67.0	66.5	66.7	26.9	27.5	27.9
Swaziland	55.9	55.4	55.1	47.3	47.1	47.1
Togo	80.0	80.0	80.0	48.7	48.6	48.4
Tunisia	61.3	61.4	61.9	21.2	21.5	21.4
Uganda	86.5	86.4	86.4	79.8	79.8	80.0
United Republic of Tanzania	81.5	80.2	80.5	77.5	76.1	76.1
Zambia	68.2	68.0	68.7	53.6	53.9	53.5
Zimbabwe	75.2	75.3	75.6	59.3	58.8	58.1

**Source:** <http://www.un.org/millenniumgoals>, 2009.

# 6

## Selected country experiences from Africa

High, sustained, and employment-generating growth rates, combined with equitable income distribution, are necessary for growth to lead to significant poverty reduction. To achieve high rates of growth, there has to be better understanding of how growth occurs and what are the success factors in the countries that have recorded significant growth levels and poverty reduction in the last few decades. Analysis in the 2010 ERA has so far focused on Africa as a whole.

However, Africa is a diverse continent. Although individual countries face common development challenges, significant differences often exist regarding resource endowments, institutions, business climates, development strategies and priorities, and economic policies. While there is a lot to be learnt from continental experiences and while regional-level support is of high importance, effective national growth and employment strategies must be based on country-specific realities.

This chapter examines the growth and employment experiences of selected African countries. Each of the case studies aims to document the recent growth and employment performance of the country, analyze opportunities and constraints to growth and employment, provide suggestions on how to strengthen the growth-employment nexus at the country level, and highlight lessons and best practices for other African countries. The discussion in the case studies also attempts to highlight the impact of the recent global economic crisis on growth and employment in these countries, the need to reduce their vulnerability to external shocks, and to mitigate the impact of these shocks, especially on vulnerable groups.

It was initially intended to select one country from each of the 5 African regions serviced by ECA Subregional Offices (SROs) including Southern Africa, which is considered a relative success at the subregional level. However, only 4 country studies were prepared, covering: Ghana (West Africa), Rwanda (East Africa), the Republic of Congo (Central Africa) and Tunisia (North Africa). While the four selected countries have a good record of GDP growth in the past decade, there are variations in terms of sustainability and volatility of growth experiences and their impacts on employment and poverty.

Table 6.1 summarizes some facts about recent achievements in these countries. Among the four countries, Tunisia achieved the highest reduction in poverty and

*Significant differences exist across African countries regarding resource endowments, business environment and economic policies*

*Growth performance has improved in Ghana, the Republic of Congo, Rwanda and Tunisia in the last decade but remains fragile in the first three countries*

inequality, followed by Ghana. In the other two countries, actual poverty reduction has been far slower than the potential poverty reduction, that is, the rate of poverty reduction that might have been expected from the observed growth in income.

As shown in the following sections, most of the case studies provide some information on income and poverty changes, but scanty information on job creation.<sup>1</sup> Tunisia is the only country for which such statistics are available, while in the other countries, there are no detailed labour market data. The link between growth and employment is difficult to assess in the absence of information on yearly job creation.

Such information is necessary for estimation of the growth elasticity of employment, which can be used for comparative purposes among countries, in terms of the level of job intensity of the economic growth. Part of the reason for this is that it is hard to obtain the relevant information as most of these indicators are not collected by statistical agencies in African countries. One would hope that data on some of these indicators will become available for future assessment of the link between growth and employment in Africa.

**Table 6.1**

*Summary of the growth and employment performance of the selected countries*

Country	Per capita income 2008 (PPP\$)	Growth in per capita income 2001-2007	Poverty Level	Unemployment level
Tunisia	7070	Rapid	Low and declining	High and increasing
Ghana	1430	Medium	High but declining	Low and declining
Rwanda	1010	Slow	Low and declining	High and increasing
Republic of Congo	3090	Rapid but volatile	High and increasing	High and increasing

*Note:* Per capita income in PPP\$ for 2008 (World Bank, 2009); Country case studies.

Notwithstanding the data limitation, the four case studies underscore the fact that growth performance has improved in the last decade but remains very fragile especially in Ghana and the Republic of Congo where production and exports are far less diversified compared to Tunisia. In addition to its insufficiency, growth has so far failed to translate into high employment creation especially in the Republic of Congo.

<sup>1</sup> The analysis in this chapter was complicated by a number of factors including scarcity of data, definitions of employment and unemployment, which made comparisons across countries difficult, and the availability of evidence on why growth has or has not led to employment generation. With the exception of Tunisia, the selected countries lack continuous survey data on job creation and job losses.

In Ghana, limited available data indicate relatively low unemployment rates compared to the rest of the continent, but the quality of data is too low to make strong conclusions. The data did not provide statistics on paid employment, the key route to decent work and poverty reduction. In Tunisia, where growth has been more sustainable and poverty rates are low, employment remained high, but the quality of jobs is perhaps much higher than in the other three countries.

In fact, Tunisia stands out as a good example of successful African experiences in promoting relatively high and sustainable growth and in reducing poverty through wage employment and social protection. The Tunisian economy has witnessed structural transformation and growth that depend less on agriculture and more on industry and services. This growth was associated with a high though declining employment elasticity of growth as well as with increased domestic demand that reduced Tunisia's vulnerability to external shocks such as climate change, although the country still relies to a significant degree on tourism.

Through appropriate institutional reforms, especially for labour and capital markets, the country created a favourable business environment supported by a modern infrastructure and a relatively well-educated human resource base. Trade liberalization and other policies adopted by Tunisia also benefited from its central position in North Africa, proximity and access to EU markets as well as industrial policies that encouraged technology transfer and adoption, creativity and innovation (UNECA 2006).

The next section discusses the key features of growth and employment strategies and performance in Ghana, followed by Republic of Congo (section 6.2), Rwanda (6.3) and Tunisia (6.4). Section 6.5 highlights the major findings of the case studies and makes country-specific policy recommendations for strengthening the growth-employment nexus. This section also highlights policy lessons to be drawn by other African countries from the four case studies.

## 6.1 Ghana: growth performance impacted positively on employment and poverty

Between 2001 and 2007, Ghana's GDP grew at an annual rate of 5.4 per cent and per capita GDP grew at 3 per cent per year. This performance represents an improvement over the previous decade (1991-2000) in which GDP grew at 4.3 per cent and GDP per capita grew at only 1.6 per cent on average per year. Much of the growth was concentrated in the secondary and tertiary sectors. Agriculture, which employs more than 50 per cent of the labour force, grew at a much slower rate of 3.8 per cent

*Tunisia created a favourable business environment supported by modern infrastructure and a well-educated human resource base*

*Ghana's improved growth performance since 2000 was accompanied by a substantial decline in overall unemployment*

in the 2001-2007 period compared with 7.2 per cent and 6.2 per cent for industry and services, respectively. This growth performance was attributed to the reforms undertaken after 1983 under the structural adjustment programme (SAP) supported by IMF and the World Bank.

The sustained increase in per capita GDP allowed Ghana to make significant progress towards achieving MDG 1, to halve poverty by 2015. According to the 2006 Ghana Living Standard Survey (GLSS), the poverty headcount at PPP\$1 per day declined from 51.1 per cent in 1992 to 30 per cent in 2006. This achievement is also attributable to the political, economic and social reforms that were ongoing in the country for more than two decades.

Ghana has made significant strides in successful democracy, with recognition of political rights and civil liberties, and freedom of press rankings among the best in Africa. The introduction of economic reforms and structural adjustment in 1983 helped to stabilize the macroeconomic environment for sustainable economic growth and poverty reduction. The implementation of stabilization, investment, and trade policies helped the economy to move from recession to a positive growth path (Aryeetey and Boateng, 2007).

Indeed, the year 1983 marked a drastic shift in Ghana's policy direction, from direct state control of productive capacities and an inward-looking trade environment to a liberal and open economic system with a reduced state involvement in economic activity. Despite the reforms, the agricultural sector continued to dominate the economy with its contribution to output, employment, revenue generation, and foreign exchange earnings, accounting for about 36.1 per cent of GDP in 2006. While the service and the industry sectors account for 29.2 and 26.3 per cent of GDP, respectively.

Meanwhile, the rate of unemployment and underemployment increased during the 1980s and 1990s. Official estimates show that unemployment jumped from 2.8 per cent in 1984 to 10.4 per cent in 1999. Economic growth during this period relied heavily on mining, which attracted the bulk of FDI but with a very low labour absorption rate. Labour-intensive sectors such as manufacturing and tourism have not attracted the necessary investment to enhance growth and employment performance (Aryeetey and Boateng, 2007). Also economic policy focused on macroeconomic stabilization without adequate consideration to employment.

However, improved growth performance since 2000 was accompanied by a substantial decline in the rate of unemployment. According to the 2006 GLSS, unemployment declined to only 5.8 per cent of the working population. This improvement in the employment situation was partly attributed to the implementation of the Government of Ghana's growth and poverty reduction strategies during the 2002-2005

period that devoted greater attention to private sector development and employment creation through public investment in infrastructure and services.

Indeed, the first and the second generation of Ghana's growth and poverty reduction strategy (Government of Ghana 2003 and 2005) focused on an employment-centred and cross-sectoral development strategy to ensure that employment would expand along with growth and that the benefits of growth would be widely shared through better employment opportunities and improved incomes for poverty reduction.

Yet, as is the case with many other African countries, Ghana's employment-generating policies lacked effective implementation owing to scarcity of funds and the fact that employment generation did not always rank high in the priority listings of the government budget. It is also true that there are no clear and quantifiable employment targets and thus, policy-makers are not required to demonstrate transparency and be held accountable even under Ghana's democratic dispensation.

Overall, in addition to the apparent absence of a strong impact on wage employment, Ghana's growth also remained vulnerable to shocks. Although supported in 2009 by favourable market conditions for its main exports, cocoa and gold, Ghana's economy has been seriously affected by the recent economic crisis. GDP growth rate has slowed to 4.5 per cent in 2009 from 6.7 per cent in 2008 with attendant reduction in government revenue and foreign revenue (table 6.2). The drop in domestic revenue and grants, the high volatility and depreciation of the domestic currency, increased inflation, and high current account deficits are seriously threatening the achievements of the last two decades.

Furthermore, the slowdown in GDP growth would harm the already critical situation of decent employment. To ease the pressure on public finance, the Government turned to the IMF and the World Bank for financial support (Government of Ghana, 2009). It further used pro-cyclical fiscal measures consisting cuts in public spending deemed low priority.

In terms of the structure of employment, agriculture accounted for 56 per cent of the workforce in 2006 compared to an average of 58.5 per cent between 1980 and 1990 (table 6.3). The service sector comes second with 29.6 per cent in 2006, almost the same average share for the period 1980-1990. The employment share of the industry sector increased by 3.5 percentage points to 14.3 per cent from 1992 to 2006, driven by manufacturing employment. The share of this sector in total employment rose by 2.7 percentage points from 1992 to 2006. Table 6.3 shows employment and GDP share by sector.

*Ghana's PRSPs have been employment-centred but lacked effective implementation owing to funding constraints*

**‘‘** *Restrictive fiscal policies of the 1980s caused a shift in employment from public to informal sectors* **’’**

**Table 6.2**  
*Ghana’s key economic and social indicators*

	1983	1984	1992	1999	2006	2007	2008*	2009**
GPD per capita ( current \$US)	277.0	301.0	434.0	405.0	681	698	714	719
GDP growth (%)	-4.6	8.6	3.9	4.4	6.4	6.3	6.2	4.5
Inflation (%)	123	41.1	10.3	12.4	10.9	19.4	16.5	17.5
Budget deficit (%)					-12.6	-14.6	-18.1	-12.2
Current account (% GDP)	-4.2	-0.9	-5.9	-12.5	-9.9	-12.0	-18.7	-10.9
Poverty headcounts (%)			50.0	39.5	28.5			
Employment* (paid or not, %)			75.9		71.6			
Employment (paid only, %)			53.3	52.3	52.8			
Underemployment (%)			7.9		5.8			
Unemployment (%)		2.8	4.7	10.4	5.8			

*Source:* Ghana in figures, GSS 2008; UNDP 2007a; \* provisional; \*\* estimate.

\* Employment rate is defined as the percentage of individuals aged between 15 and 64 declaring a job in the last 7 days.

**Table 6.3**  
*Employment and GDP by sector*

	Employment by sector (%)		GDP by sector (%)	
	1991/92	2005/06	1996	2006
Agriculture	60.1	56.0	39.0	36.1
Industry	10.8	14.3	23.6	26.3
Mining/Quarrying	0.5	0.7	4.7	5.2
Manufacturing	9.0	11.7	8.6	8.6
Utilities	0.1	0.2	2.7	3.2
Construction	1.2	1.7	7.6	9.4
Services	29.1	29.6	26.2	29.2
Trading	17.2	17.4	5.8	7.2
Transport/Comm	1.9	2.7	3.7	4.6
Financial Services	0.5	1.1	3.8	4.5
Community & Other Services	9.5	8.4	13.0	12.9
Number of workers (in ‘000)	5,727.5	8,491.7	-	-

*Source:* UNDP 2007a; GSS 2008.

The restrictive fiscal policies under the economic reform of the 1980s came at a social cost. According to Aryeetey and Boateng (2007), the public sector retrenchment and privatization measures carried out to curtail growing public expenditure caused a shift in employment from the public to the informal sector with a considerable number of people becoming jobless. In the same vein, the reduction of subsidies to the agricultural sector adversely affected the food crops of farmers who constituted the bulk of employment in the agricultural sector.

As a policy response, the Government of Ghana initiated a social protection programme in 1987-1988, namely, the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) as a safety net for those adversely affected by structural adjustment reforms. The Programme comprised 23 projects grouped into five categories: employment generation; community initiative projects; help to the redeployed; basic needs for vulnerable groups, and education (World Bank, cited by Al-Hassan and Poulton, 2009).

Implementation problems prevented PAMSCAD from achieving significant results (Armstrong, 1995). These included lack of logistics support and funding, lack of staff, and cumbersome accounting procedures leading to slow disbursement of available funds. In addition, the multiplicity of donors and the methods used to target the poor limited the effectiveness of PAMSCAD.

Based on the bottlenecks of past social protection experiences, including uncoordinated delivery and poor targeting of interventions, Ghana designed its National Social Protection Strategy, the Livelihood Empowerment against Poverty (LEAP). LEAP is based on the second Growth and Poverty Reduction Strategy of the country. It started with a 5-year pilot experience in which the main components were conditional and unconditional cash transfers to orphans and vulnerable children (OVC), the elderly above 65 years old and the disabled. The Programme aims at reaching about 160,000 families living in extreme poverty. Ghana has clear priority social protection measures that focus on enrolling and keeping all school-age children in school; a National Health Insurance Scheme for all family members; child registration and expanded immunization; and provisions for protecting all children in the family from child trafficking and from subjection to any of the worst forms of child labour.

However, Ghana's employment and poverty data should be viewed with caution given the predominance of the informal sector. The informal economy employs 91 per cent of the economically active population. Among the major informal sectors in the country are agriculture, food processing, clothing, metal fabrication and repairs, wood processing, handicraft construction, garage services, trade, restaurant (chop bar) and transport. Typically, the skills required for operating in these sectors are acquired 'outside the formal system of education' (UNDP 2007a).

## 6.2 Republic of Congo: Fragile growth and high unemployment

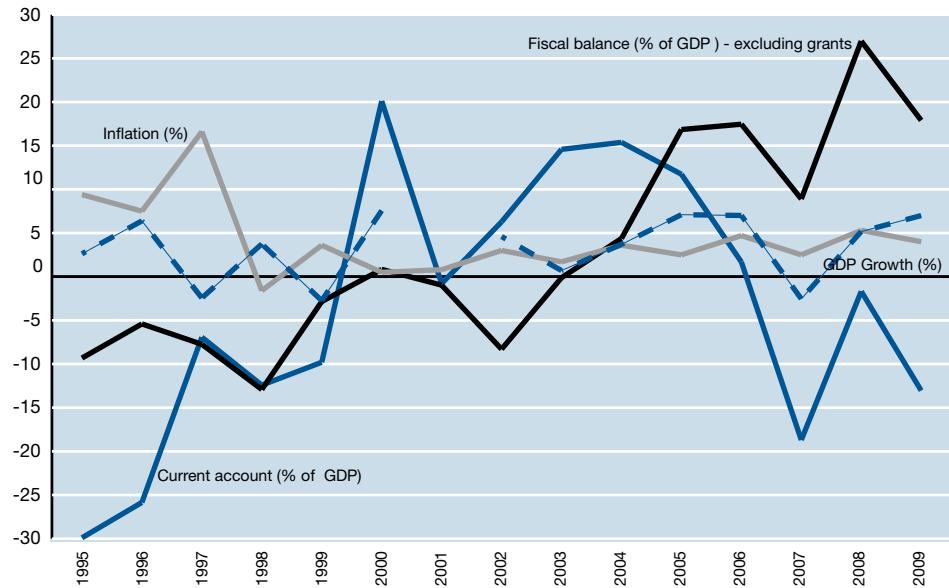
In the grip of major economic and financial crises since the middle of the 1980s, the Republic of Congo's economy started to experience a slight recovery during 1995

*Despite improved performance, Congo's growth remains fragile and insufficient to meet the MDGs*

and 1996 due to implementation of economic reforms with the help of major multilateral and bilateral donors. A series of armed conflicts stopped this short recovery, at the same time deeply harming the reforms and the economic and social development of the country. These wars affected political stability as well as the economic performance of Congo. The onset of peace in 1999-2000 and gradual restoration of macroeconomic stability re-boosted economic activity, although growth remains highly volatile and insufficient for the country to achieve the MDGs.

The Congo's economic performance has been quite remarkable since 2000 due to the restoration of macroeconomic stability and the existence of a favourable global economic environment (figure 6.1). Inflation, which averaged 7 per cent in the late 1990s, decreased to an average of 3.2 per cent between 2000 and 2009. The fiscal and external balances were strengthened over the decade. However, economic growth still fluctuated widely as a result of the high dependency of the economy on oil production and exports. Real GDP grew by only 3.8 per cent per year on average during the 2001-2007 period but picked up to 6.6 per cent in 2008. This growth was led by the oil sector and was also boosted by rising government spending that supported increased activity in the non-oil sector.

**Figure 6.1**  
*Congo's key economic indicators*



*Source : UNECA/SRO-CA from official sources (2009)*

The recent global economic crisis has had a moderate impact on Congo's economic performance. It has, however, reduced demand for some of its exports, notably timber, while the fall in international oil prices has also reduced fiscal revenue. Nev-

ertheless, real GDP grew by 7.1 per cent in 2009 due to the significant rise in oil output and a moderate increase in non-oil GDP. Oil GDP grew by 6.6 per cent in 2009 up from 6.1 per cent in 2008, while non-oil GDP increased by 2.8 per cent in 2009 against 4.8 per cent the previous year.

Despite recent growth and efforts by the authorities to accelerate employment-generating growth especially in the non-oil sector in the context of the Congo's poverty reduction strategy, unemployment and poverty rates remain alarmingly high. This worrying situation reflects the economic choices and policies of the previous decades, as well as the consequences of the wars which occurred there.

Indeed, the results of the Congolese household survey (ECOM) carried out in 2005 estimated the incidence of poverty at 50.11 per cent of the population. In addition, the level of unemployment was increasing over time. In 2005, it was estimated that more than 34 per cent of the active population was unemployed against 30.1 per cent in 2000 and 19.3 per cent in 1990 (RNDH 2005). These poverty and unemployment profiles went hand in hand with insufficient health care and basic education services (AEO, 2009).

Usually, there is a positive link between growth and employment. This link may be robust but is also very complex and depends on the sources of economic growth. In the case of Congo, the impact of growth on employment is very weak because much of the growth has been in the extractive sector - a capital-intensive sector with little potential for job creation. Despite its size in the economy (70 per cent of GDP in 2007), the oil sector employs no more than 1 per cent of the labour force. Furthermore, the manufacturing sector, usually labour intensive with the highest level of growth elasticity of employment, accounts for only 6 per cent of GDP - eight percentage points lower than the SSA average.

In the Congo, formal employment is mostly restricted to the public sector and a few private firms in the forestry and services sectors. Although growth in the non-oil sector has been relatively strong in recent years, it has not been strong or significant enough to create jobs.

Besides the small potential for job creation resulting from the character of economic growth, many policymakers attribute the poor employment performance of the Congolese economy to the imbalance between Congo's labour needs and the skills provided by the education system. These imbalances are manifested by the existence of a notable shortage of trained engineers in particular and those with technical skills in general. Moreover, Congo's labour market regulations are too rigid and constrain the hiring and firing of personnel. This aggravates the employment situation by making employers reticent to hire new employees.

*“ Unemployment and poverty rate remain alarmingly high in Congo ”*

**Congo's public spending on education is very low**

In addition to these two factors, the low effectiveness in budget spending for job creation is another element of the poor employment creation performance. The share of public spending on labour-intensive activities and skills developments programmes is small in coverage and declining over time (table 6.4). Resources allocated to agriculture are very limited despite the fact that this sector has one of the strongest potential for job creation given that Congo is well endowed with fertile land, favourable climate and abundance of water. Also there are no effective measures to promote agro-industries and manufacturing or services.

Public spending on education is also very low and confirms the fact that improving workers' skills is not a priority in public policies. Other factors partly explain the poor performance of Congo in job creation. These are mainly: (a) freezing of recruitment in the public sector; (b) destruction of private economic activity and jobs during the war; (c) closing down of State-owned firms; (d) lack of local initiatives for creation of SMEs; (e) absence of technical and vocational education training (TVET) activities; (f) difficulties to access credit; and (g) absence of policy favouring entrepreneurship and industrialization.

**Table 6.4**  
*Sectoral breakdown of public investment in Congo (%)*

Sectors	1964 – 1968	1975-1977	1982 – 1986	2000 – 2002	2005 – 2007
Basic infrastructure	36	35.8	49.7	38	41.9
Agriculture	19	15.2	24.6	6.4	8.5
Industry	9	7.7	8.6	0.3	0.9
Social sectors	13	10	5.5	20.3	18.8
Other sectors	23	31.3	9.8	27	28

*Source:* UNDP (2007b)

The informal labour market is the only alternative for the majority of job-seekers in Congo. Available data indicates that in 1994, the rate of informality increased slightly compared to 1992 and 1985, reaching 89 per cent of the total labour force (CNSEE, 1996; Direction Generale de l'Economie, 2004). Despite its substantial contribution to job creation, the informal sector does not have real capacity to provide decent jobs because it is characterized by low productivity and income and limited capacity to expand. Indeed, the majority of informal sector activities is carried out within the framework of individual micro enterprises with modest capital and is therefore far from constituting the base for dynamic growth and labour absorption. In real terms, jobs created in this sector tend to be precarious employment.

## 6.3 Rwanda: Rapid growth performance but unemployment and poverty still major concerns

Impressive economic growth in Rwanda during the last decade has not translated into significant job creation and poverty reduction because it has remained heavily dependent on the less dynamic agricultural and informal sectors. Since 2001, the Rwandan economy has been one of the fastest-growing in Africa and, indeed, in the world. Real GDP growth averaged 6.8 per cent annually from 2001 to 2007 and reached a double-digit rate in 2008, at 11.2 per cent. The main reason for the impressive growth rate is that the country has been steadily recovering from the steep economic decline of the early 1990s.

From 1990, Rwanda was embroiled in a civil war that culminated in the genocide of 1994 and, subsequently, the mass flight of the population. The economic impact of these events was severe with GDP growth of -10 per cent in 1993 and -49 per cent in 1994. The outstanding growth of 2008 was achieved in an economic environment of high inflationary pressure and was driven by sound improvement in three sectors - agriculture, service, and industry. While the average inflation was around 9.0 per cent from 2005 to 2007, it reached double digits in 2008 (15.4 per cent) and remained high following the adverse effects of the economic and financial crises (10.4 in 2009).

From 1.3 per cent of average growth in the period 2001-2007, the agriculture sector registered a growth rate of 15 per cent in 2008 thanks to favourable weather conditions in the whole country. This sector contributed between 37 and 39 per cent of GDP from 1999 to 2006 with 2002 (35 per cent) as the only exception. The share started decreasing in 2007 and kept the down trend in 2008 with 36 and 33 per cent of GDP, respectively.

The growth rate of industrial output remained stable for the period 2001-2009. It grew by 7 per cent in 2009 from 7.5 per cent in 2008 and an average rate of 8.8 per cent during the period 2001-2007. Most sub-sectors registered high growth rates, especially electricity, gas, water (18.1 in 2008 against 5.1 and -13.0 per cent respectively in 2007 and 2006) and construction (28.2 in 2008 against 15.0 per cent in 2007). Overall, the growth of the industrial sector has shown significant improvement since 2000 from its average growth rate of less than 1.4 per cent over the period 1991-2000.

Finally, the services sector's average growth rate increased from 3.9 per cent in the 1980-1990 period to 4.2 per cent in 1991-2000, and 7 per cent in 2001-2007. Even in 2008, the service sector continued its growth and reached a rate of 10.1 per cent. In more recent years, all the sub-sectors continued their fast growth, except the

*Rwanda's  
impressive growth  
mainly reflects post-  
conflict recovery*



Rwanda was  
ranked the 5<sup>th</sup> best  
business regulation  
reformer in Africa  
in 2010

finance and insurance sub-sector which slumped from 11.6 per cent in 2007 to only 1.8 in 2008. The services sector is the biggest contributor to GDP, with more than 40 per cent, thanks to large investments in ICT and other subsectors.

Good macroeconomic management enabled Rwanda to achieve relatively high economic growth. Related economic reforms included independent regulatory agencies, stronger public expenditure management systems with independent audit agencies, and a strong focus on fighting corruption.

Development of the private sector was among the priorities of the Rwandese Government, for achievement of sustained economic growth. Thanks to packages of policies and instruments for private sector promotion, Rwanda has become one of the most active reformers of business regulation worldwide. It is ranked the fifth best reformer in Africa, after Mauritius, South Africa, Botswana and Namibia<sup>2</sup>. Nevertheless, the contribution of the private sector to the economy and employment remains limited, mainly because of lack of adequate infrastructure services, especially road and energy, and the weakness of the financial sector.

The impact of the global economic slowdown on Rwanda's economy is assessed to be limited due to the country's low integration into the global economy and the relatively high dependency on subsistence agriculture. However, the crisis has adversely affected tourism and remittances and slowed down growth in the construction sector.

Despite good growth performance, unemployment and poverty remain severe in Rwanda. Rwanda's population is very high (9.7 million people<sup>3</sup>) relative to the land mass and is expected to increase to 16 million by 2020. In 2000, 64 per cent of the population were considered poor. Unemployment ranged from 26.7 to 23.4 per cent of the population aged 15 and more from 2000 to 2006 and went even higher for the youth working population aged between 15 and 24 years (42.4 per cent in 2006 from 38.1 per cent in 2000).

The Government's main economic challenge is to stimulate new sources of pro-poor growth. In the short and medium term, however, the focus is on rural development and boosting and diversification of agricultural production on the basis of the participatory process that generated Rwanda's well-received PRSP (completed late in 2002).

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<sup>2</sup> According to the 2010 World Bank Report on Doing Business.

<sup>3</sup> These data are from World Bank World Development Indicators. The values for Africa (excluding South Africa and Nigeria) are 268, 275, and 282 respectively for the years 2005, 2006 and 2007. An overall difference of more than 100 people per square km is too big.

*“ FDI flows to Rwanda are limited by the lack of appropriate infrastructure and trained workers and geographical location ”*

Despite its importance in labour absorption (90 per cent of the labour force), the agricultural sector is characterized by low productivity and subsistence income levels. Most of its workers are underemployed and poor because of the lack of adequate skills, underdeveloped infrastructure, and low integration into the rest of the economy. All these factors hamper modernization of the sector. Finally, land is scarce and population growth is very high while the sector is weakly linked to other sectors.

In early 2001, Rwanda adopted Vision 2020, the overall objective of which was to transform its economy into a middle-income knowledge-based dynamic service economy. This ambitious target required achieving annual growth rates of at least 7 per cent to reach a GDP per capita of \$900 in 2020 (from \$290 in 2000). Moreover, Vision 2020 aimed to reduce the poverty rate from 64 per cent in 2000 to 30 per cent in 2020 and to raise average life expectancy to 55 years. Achieving these objectives requires large investment in infrastructure, human capital and the knowledge-based services sector. In this regard, FDI can provide a much needed capital and technology.

FDI affects economic growth and poverty reduction in several possible ways. The first direct impact of FDI works through development of productive capacities and technology transfers. It also contributes to the tax income of the country's budget and facilitates government-financed programmes, among which feature subsidies to the poor and investments for job creation. Finally, FDI may induce governments to invest in infrastructure and benefit the local poor. However, so far FDI has played a limited role in Rwanda's investment profiles both in terms of quantity and employment generation. Since 2000, FDI has accounted for only 31 projects, which represented only 0.5 per cent of GDP during the 2001-2007 period. In addition to their low level, FDI inflows are expected to create only 1,708 jobs.

The poor performance of the country in attracting FDI could be explained by two main factors. The first is economic and relates to the lack of appropriate infrastructure and adequately trained workers. The second relates to the political and geographical situations of the country. The country is recovering from the genocide era and the sad memories remain. It is located between Burundi and DRC, two countries where rebellions are still active. The threat of youths joining in conflicts remains a serious alternative to unemployment and to the threat of negative cross-border spillovers.

Thus, despite some economic progress, the country still faces critical economic and social development challenges. The high level of unemployment is growing and consequently, is increasing the already high levels of poverty incidence, depth and severity. With very low integration into the world economy, high poverty constrains household demand and hinders growth. One of the best strategies to counter these trends is to enhance domestic and foreign investment to create jobs, particularly through small and medium enterprises and promotion of the informal sector. In this



*Despite sustained growth, Tunisia suffers from high unemployment especially among youth and women*



respect, the services sector is still expected to become the most important engine of Rwanda's economy.

The country needs to design strong policies to encourage investment in high-quality services that are competitive in the region. Productive entrepreneurship must be fostered to perform its traditional role of creating wealth through employment. Rwanda needs to pursue long-term policies to enhance technical skills development through education and training especially in technology, engineering and management. Special focus should be devoted to meeting the needs of innovative, small-scale entrepreneurs.

## 6.4 Tunisia: Impressive growth and employment performance but declining employment-intensity of growth

Since independence, Tunisia has made significant economic and social progress. Economic development, investment in human capital and family planning combined with policy reforms to improve per capita income, raised national living standards and provided skilled labour. These measures have helped the country to speed up the pace of economic and social development. Tunisia is currently classified by the World Bank among the middle-income countries, with a per capita income of \$3,290 in 2008 and a per capita income of \$7,070 based on purchasing power parity in the same year.

All these achievements notwithstanding, Tunisia is facing the challenges of high unemployment, particularly among youth and women. Economic growth has not enabled sufficient absorption of labour to reduce the unemployment rate of 14.2 per cent (in 2008). The rate is particularly high for women (16 per cent), young graduates and especially people under 25 years (30 per cent).

From 1961 to 2009, Tunisia's economy averaged an annual growth rate of 5.1 per cent and showed greater resilience to external shocks. In real terms, per capita GDP increased by one third during the 1990s. The country's growth rate has exceeded the average recorded for countries of North Africa over the last five years despite the relative decline in natural resource availability and a more competitive international environment. This performance is the outcome of structural reforms carried out principally by opening up to foreign trade, increased public investment and the country's highly-skilled human capital base (World Bank, 2008).



*Export diversification and increased domestic demand lowered growth volatility in Tunisia*

Tunisia has been able to weather such external shocks as those associated with the Gulf War in the early 1990s with a mean annual growth rate of 4.4 per cent from 1991 to 1996. It also weathered the 1997 East Asian crisis with a mean annual growth rate of 5.2 per cent over the period 1997-2000. In addition, the impact of perennial drought on Tunisian agriculture has become less devastating.

Indeed, even allowing for the slower growth resulting from the adverse international situation that discouraged tourism and manufactured exports, and from a third successive year of drought, non-agricultural GDP held firm (3.5 per cent as against 1.7 per cent in global GDP). This demonstrates the resilience of the national economy which has gone on to weather the negative effects of the current crisis with growth rates as high as 4.6 per cent in 2008 and 3 per cent in 2009.

The reduction of volatility from 1990 onwards mainly resulted from greater import/export stability and a rising share of domestic demand. Thus, the external balance remained stable despite changes in imports and exports. Over the period 1975-1986, which preceded adoption of the SAP, growth in the Tunisian economy was driven by domestic demand, with an annual average growth rate of 5.6 per cent, whereas the net contribution of external demand was negative at around -1 per cent.

This period was also characterized by marked growth in oil revenue and a rise in incomes. During the period subsequent to the SAP, 1988-2009, the sustained growth rate averaging 4.6 per cent was also driven by domestic demand, which recorded an average growth rate of 4.5 per cent.

Tunisia's growth performance, combined with its social welfare policy, has helped to reduce poverty in the country considerably. Since independence in 1956, Tunisia has followed a three-pronged social welfare policy. Thanks to free education for all children in all the country's regions, the number of years of education completed by the working population rose from 0.7 in 1962 to around 7 in 2006. Birth control under a family planning policy reduced population growth and cut the fertility rate to a level close to that in the developed countries. Increased women participation in the labour market resulted from the proactive policy for women's advancement and equality and from enactment of the Civil Code.

The outcome was a significant reduction in the poverty rate, which stood at only 3.8 per cent in 2005 against 4.2 per cent in 2000, 6.7 per cent in 1990 and 7.7 per cent in 1985. Similarly, the percentage of the working poor and economically vulnerable fell from 17 per cent in 1995 to 10 per cent in 2000. The decline in poverty during the second half of the 1990s, which was observed in all parts of the country, occurred in both urban and rural areas (World Bank, 2003).

**“** Employment creation in Tunisia slowed down since the early 1990s **”**

The Tunisian economy has undergone substantial structural changes. Growth is increasingly less dependent on the vagaries of climate, with the fall in the role of agriculture and industries other than manufacturing and the rise in the role of services. Since 1990, the reduction in the share of agriculture in GDP has been fully offset by the rise in the share of services, while the share of manufacturing has remained stable. The relative importance of the various sectors has changed as a result of two factors. The first relates to the restructuring of domestic demand and external demand, on the one hand, and of the natural resource endowment on the other. The second stemmed from Tunisia's greater integration into the world economy.

Given these changes in the structure of the Tunisian economy and its performance in terms of consolidation of growth and reduction of poverty, the job market has also undergone changes, both in terms of additional demand for jobs and in the field of labour relations and the Labour Code. In this context, the pace of job creation from the mid-1990s onwards, at an annual rate of some 70,000 jobs, has been relatively slow compared with the level of unemployment in the country. However, it is higher than the rate recorded during the periods 1981-1986 and 1987-1995, when 41,300 and 52,500 jobs were created per year.

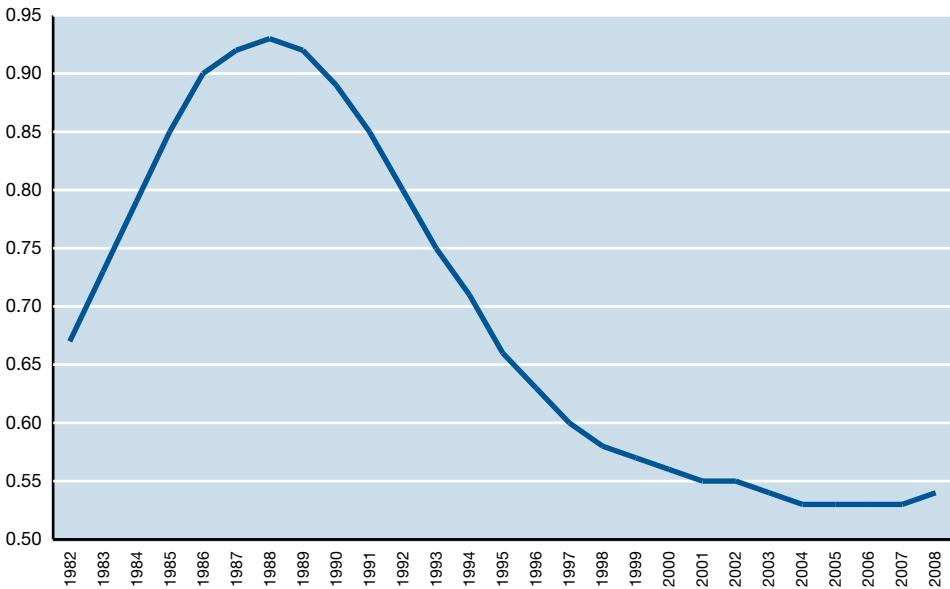
The main reason for this situation is the dynamic growth of the productive services sector. Between 1996 and 2008, an annual average of 28,700 jobs was created in this sector, or a total of 373,400 jobs, i.e. 57.8 per cent of the total in the entire productive sector aside from agriculture. In 2008, some 36,000 jobs were created for graduates in the Tunisian economy. The number of employed graduates rose from 80,000 in 1987 to 470,000 in 2008, helping to improve the overall management-staff ratio in the economy from 4.5 per cent in 1987 to 15.5 per cent in 2008.

However, despite this substantial job creation, unemployment among young people (aged 25 to 29) rose from 12.6 per cent in 1984 to 25.2 per cent in 2008. In addition, unemployment among young graduates, which affects all categories of graduates, is a growing worry (World Bank and Ministère de l'Emploi et de l'Insertion Professionnelle des Jeunes, 2008). Analysis of data on growth and employment shows that the level of job creation was not enough to reduce unemployment. The employment rate in Tunisia is low compared with other countries; it rose from 43.7 per cent in 2000 to 46 per cent in 2008, as against 75 per cent in the Netherlands and Denmark.

The employment elasticity of growth in Tunisia showed a downward trend between 1982 and 2008, falling from 0.84 over 1982-1991 to 0.71 during 1992-1996 and to 0.55 during 1997-2008 (figure 6.2). The overall EU rate has stood at 0.6 on average since 1998.

**Figure 6.2**

*Trends in the employment elasticity of growth in Tunisia*



*Tunisia's employment elasticity of growth declined over time with increasing competition and integration into the global economy*

**Source:** Calculations by the author using employment data from the Tunisian Institute of Competitiveness and Quantitative Studies (Institut Tunisien de la Compétitivité et des Etudes Quantitatives (ITCEQ)).

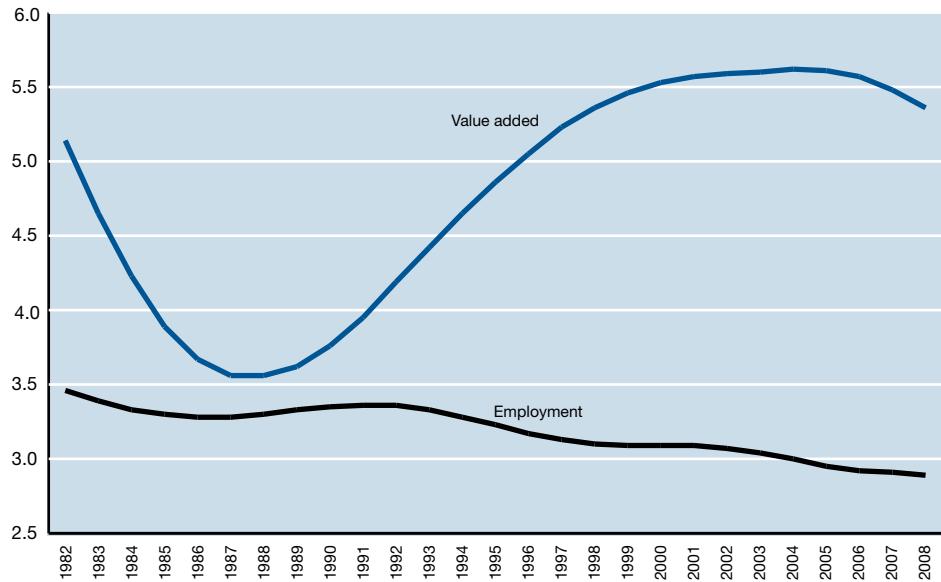
One way to analyze the evolution of the employment intensity of growth is to compare the gains in labour productivity and economic growth. When economic growth outpaces productivity growth, jobs are created. If growth falls short of productivity gains, a net loss of jobs follows. Between 1982 and 2008 growth in value added in all trading activities, except for agriculture and fisheries, was faster than growth in employment in Tunisia (figure 6.3). This situation appears to indicate the beginning of a process of catching up with the level of productivity in Tunisia's main trade partners and competitors.

While more research is needed to understand the root causes of the decline in the employment intensity of growth in Tunisia, several factors may be highlighted. A major explanation is inherent in the nature of the transition from an inward-looking, regulation-based regime to one based on greater competition and integration with the global economy. While the incentive system of the latter is more employment friendly than the incentive system of the former, the transition itself entails the laying off of vast numbers of workers inefficiently absorbed and on the payroll principally but not exclusively of State enterprises.

**“**  
*Unemployment among graduates increased in Tunisia from 6.6 per cent in 2000 to 20 per cent in 2007*  
**”**

**Figure 6.3**

*Growth in employment and value added of trading activities, excluding agriculture and fisheries (%)*



*Calculations based on employment data from Institut Tunisien de la Compétitivité et des Études Quantitatives.*

Tunisia's private sector is dominated by SMEs. In the industrial sector, SMEs are characterized by a low level of technology and production processes which do not foster technological innovation (Elachhab, 2009). Adopting a cost-minimization approach, these enterprises tend to engage a larger number of low-skilled labourers. Only the large enterprises, mainly in the energy sector, make use of salaried workers with a higher education. In manufacturing, the management-staff ratio barely exceeds 7.4 per cent.

Tunisia's unemployed population of all working age changed greatly in structure between 2000 and 2007. In 2000, unemployed holders of the higher education diploma (*diplôme de l'enseignement supérieur - DES*) accounted for 6.6 per cent of all those unemployed. This share rose to 20 per cent in 2007. Although action by the State has focused on jobs for women, statistics show that women are at a disadvantage compared with men where jobs are concerned. While they are more numerous (57 per cent of all graduates in 2004), women are clearly worse-hit by unemployment than men.

Taking all graduates together, unemployment among women stands at 51.6 per cent against only 38.3 per cent for men (World Bank and Ministère de l'Emploi et de l'Insertion Professionnelle des Jeunes, 2008). One reason for this situation is the fact

that most university degrees held by women are in fields in little demand among enterprises.

To address these employment challenges, Tunisia has long since adopted various job support measures, which have been broadened since the 1990s to cover different sectors and types of beneficiaries. However, despite numerous government measures under a variety of programmes falling under active employment policies (*politiques actives de l'emploi - PAE*), unemployment remains high and pressures on the labour market are increasing. Despite improvements in the operation of the labour market, constraints remain. Continuing education gets little public support in terms of funding and labour market agencies are concentrated in urban areas, whereas unemployment is highest in the rural areas, especially in the North West region. Moreover, there is lack of clarity regarding the roles of institutions, which usually causes duplication among labour market support mechanisms or incentives. Lastly, the problem of job creation calls for a comprehensive approach on the part of the PAE mechanisms, which are currently fragmented. The priorities and planning involved in labour market reforms must take the characteristics of job-seekers into account and ensure equal distribution of social benefits among the various categories of the target population, such as dismissed workers, disadvantaged workers or workers at risk, and graduates.

## 6.5 Conclusions and policy recommendations

### **6.5.1 Overall growth and employment performance in the four African countries**

The four countries - Ghana, the Republic of Congo, Rwanda and Tunisia - recorded relatively high growth rates over the last decade or so. At one end, Tunisia sustained relatively high growth rates over more than three decades, while at the other end, growth in Congo was very fragile, moving from high positive in some years to negative in others. Overall, average growth in all countries remained below the level (7 per cent) necessary for achieving the MDGs. Besides inability to achieve the 7 per cent growth rate, the major questions are whether growth in these African countries has been employment-intensive and how the employment intensity of growth changed over time.

Over the past two decades, Ghana has maintained steady growth, driven by the combined effects of strong international demand for primary products (cocoa, gold, timber) and domestic reforms. That performance had positive effects on social development with a steady decrease in poverty and unemployment rates, attributed to

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Country experiences suggest that well-designed and effectively implemented development plans are essential for high and sustained employment-generating growth  
**”**

the economic reforms implemented in the country since the 1980s. However, these programmes had not fostered the response needed from the private sector or substantially raised agricultural productivity (World Bank 1995). Achieving high-level sustainable growth in Ghana remains a serious challenge today.

Tunisia has had one of the fastest-growing economies in North Africa since the mid-1990s. It has achieved relatively high growth and a significant improvement in social conditions. The growth strategy has helped the poor to reap benefits from the growth process, especially through its participation in the labour market and accumulation of productive assets, mainly human capital. The growth strategy has been based on the development of labour-intensive and export-oriented manufacturing and service activities that have played an important role in accelerating growth and increasing employment for low- to middle-skilled workers, mainly female workers, many of whom come from rural areas.

However, the labour intensity of growth has declined progressively since the early 1990s and Tunisia is now facing the increasing challenge of creating jobs for skilled workers rather than unskilled workers. For this job category, specific policies are required to boost growth in specific sectors such as IT, engineering and related industries.

Congo and Rwanda also experienced good performance in terms of economic growth and macroeconomic stability. However, overall growth was not high enough, for both economies, to provide more employment than the increase in the labour force. Congo's heavy dependence on oil exposes it to volatility, particularly with regard to world prices. This sector has limited links to the wider economy, and the impact on employment and incomes from the capital-intensive oil industry has so far been negligible. Congo urgently needs to expand the number of well-paid jobs in the formal sector in order to reduce poverty.

Despite improved economic performance since 2000, Rwanda faces challenges of employment generation complicated by high population density and heavy dependence on agriculture. The economy has few natural resources to exploit and a small, currently uncompetitive industrial sector. The good growth performance of recent years supported very little job creation.

In short, the experiences of the four countries suggest that enhancing the growth-employment hinges crucially on the existence of well-designed and effectively implemented development plans. These plans should include flexible macroeconomic and sectoral policies as well as labour market reforms to increase productivity and reduce the mismatch between labour supply and labour demand. Such policies must also assist workers and firms to mitigate the effects of economic transition, and enhance the development of new labour-intensive industries.

## **6.5.2 Key policies to strengthen the growth and employment nexus at country level**

### **Ghana**

Ghana's improved economic performance in recent was not accompanied by adequate decent employment creation and employment remains heavily dependent on the informal sector. For the country to achieve higher and more employment-generating growth, the following key measures are recommended:

**Prioritizing agriculture and agro-industry.** Agriculture should be given priority for its long-lasting ripple effects on the economy. This will boost agricultural output as well agro-based industries and diversify exports. For this to be effective, issues of access to land, credit, technology and markets must be addressed. Increasing the productivity of the agricultural sector itself is important as it is the sector that will provide the inputs into the agro-industrial sector as well as income to farm workers. Without increased agricultural productivity, there can be no agro-industry.

**Accelerating human capital development.** Human capital formation through appropriate education and training will improve the overall productivity of labour as well as labour absorption. As underlined in the GPRS II, the main goal is to ensure development of a knowledgeable, well-trained, disciplined and healthy population with the capacity to drive and sustain the private sector led-growth strategy (Government of Ghana 2005).

**Improved coordination and implementation of growth and employment strategies.** Employment generation must be put high on the agenda of policymakers and be considered as a priority policy target. This requires more inclusive public participation in policy design and monitoring of employment programmes, enhanced coordination across ministries and government departments as well as increased transparency and accountability of policy makers regarding progress in job creation.

**Improved employment data.** Setting and monitoring measurable decent employment targets requires the collection of timely and reliable employment data through surveys and other methods. This should be given priority and include building of consensus on concepts and definitions related to employment, refining methods for collecting data on each category of employment and increasing the availability of employment data to all stakeholders.

**Special attention to vulnerable groups and enhancing social protection.** An equally important aspect of employment strategies is to ensure that vulnerable

groups (women, youth, and the disabled) have access to decent work through labour market and other reforms. It is also important to ensure the effectiveness of the National Social Protection Strategy by enforcing its protection of the rights of other vulnerable members of society, especially children, people with special needs and the elderly.

### **Congo**

It is imperative that Congo put conditions in place that favour the domestic drivers of growth that most contribute to more job creation while at the same time mitigating the country's exposure to internal and external shocks. Some of the recommended strategies are the following:

***Strengthening macroeconomic stability.*** Congo must maintain the dynamics of growth and reforms of the last few years. Fiscal consolidation is particularly needed in order to improve budget allocations in favor of infrastructure and human capital development and public services that promote economic growth and employment.

***Promoting economic diversification if adequately managed and allocated.*** Congo's oil revenue will provide the funding needed to diversify economic activity into the non-oil sector and accelerate economic transformation as well employment generation. Targeted interventions are therefore necessary to direct oil income to jumpstart activity in key sectors, particularly agriculture, manufacturing, forestry and services. In this context, the Government needs to deepen and sustain its efforts to revive agriculture through investment and technological transfer, and increased investment in transportation (railway, roads, and ports), energy and water, education and other social services.

***Attracting non-mineral FDI.*** The Congolese Government is giving great attention to attracting non-mineral FDI in labour-intensive sectors such as tourism. Tourism can generate direct and indirect jobs in hotels, travel agencies, transport firms, restaurants and national parks and at monuments.

***Institutional reforms for private sector development.*** The non-oil private sector constitutes the missing link in Congo's economy. To create more favourable conditions for private non-oil sector development, diversify economic activity and attract FDI, few reforms are necessary. However, procedures to start and to close an activity, hire and fire, get credit or pay taxes are too costly and cumbersome and deter entrepreneurship. The authorities need to deepen and sustain reforms to improve the business environment and reduce the cost of doing business.

**Improving the quality of labour supply.** The lack of an adequate base of skilled workers hampers investments in manufacturing. Investment climate surveys usually find that firms in Congo are not able to find the skills they need in the labour market, suggesting that lack of a skilled labour supply impedes investment and employment creation in Congo. To attract new labour-intensive investment, Congolese authorities need to ensure that their labour supply matches the demands of firms.

### **Rwanda**

**Rwanda has achieved sustained growth in the last few years despite the recent economic and financial crises.** It has also made significant progress in macroeconomic stability, governance and institutional change. However, there are many challenges to address for Rwanda to accelerate and sustain job-creating growth:

**Sustaining job-creating growth.** The country has to sustain the high rate of growth, reduce the heavy dependence on agriculture and face competition of an enlarged market in the context of the East African Community (EAC).

**Enhancing human capital development.** Rwanda has engaged in labour market reforms since 2003 to achieve two main objectives: (a) address skill deficiency in the labour force, and (b) ensure Rwanda's effective integration into EAC, bringing its skills level up to the standards of other EAC members. To achieve these objectives, large investments in education and research and development are required in the context of the 2008-2012 Capacity Building and Employment Strategic Plan of Rwanda.

**Establishing policy and institution-building mechanisms.** A national employment policy and strategy, a labour code and a five-year strategic plan for youth and women employment have been adopted. All these institution-building mechanisms are meant to support achievement of the ultimate goal of transforming Rwanda's economy. The ultimate focus of these mechanisms should be on poverty reduction through decent job creation.

### **Tunisia**

Despite relatively high and sustained growth in Tunisia over more than three decades, unemployment remains high especially among women and youth. The country needs to undertake effective measures to increase and sustain growth and at the same time reverse the trend of declining employment elasticity of growth. Key policies should include:

Attaining a new growth threshold. In the view of Tunisia's Commission croissance et emploi (2008), reducing unemployment would require an annual growth rate of 6 to 7 per cent, higher than the 5 per cent rate achieved over past decades. The World Bank thinks that the rate should be at least 10 per cent. Regardless of the growth rate, its components need to change urgently. In such circumstances, Tunisia must explore the high value-added niches of the knowledge economy by focusing on ICT-related work and manufacturing processes because of their high-end skill requirements.

***Improving performance in the services sector.*** Growth in the services sector has been on the rise since the early 1990s. Trade and the financial sector contribute the most to value added and job creation. Domestic market-oriented business activities, less pressured by foreign competition, reflect the shifts in industrial production strategy towards input demand, leaning more towards such services as feasibility studies, accounting and advertising. From 2000 onwards, transport and telecommunications caught up with and then outpaced these activities. Despite this performance, growth in the sector has yet to reach its full potential, which requires measures to diversify services activities especially in the export sector.

***Promoting private investment in high-employment activities.*** Tunisia must also promote private investment in high value-added sectors and high-employment schemes in the areas of ICTs, health, tourism and transport, logistics, corporate business and other services.

Promoting the creation and growth of SMEs. Promoting SMEs is essential to speeding up employment generation. Tunisia cannot afford to increase employment at the expense of productivity growth as it did in the 1970s and 1980s because only by improving productivity would it be able to face up to the challenge of intensified global competition. For that reason, future national prosperity lies largely in the Government's capacity to create an enabling environment for private sector development, to address the challenge of business creation that fosters employment generation. The concentration of SMEs in low value-added sectors inhibits demand for skilled labour. For SMEs to contribute more to reducing unemployment, they must be revamped in three ways. First, both the skills of their managers and their technology base should be improved. Second, research/development should be promoted as should, third, good corporate governance to help reduce cost and facilitate the growth of SMEs.

***Reforming the active employment policy (PAE).*** Given the low effectiveness of the unemployment reduction schemes adopted, it is high time for Tunisia to restructure all PAE schemes along two lines. First would be a regrouping of the schemes while simplifying their procedures. Second would be linking these schemes to placement in businesses. The restructuring exercise should cover all categories of job-seekers.

### **6.5.3 Key lessons from the case studies**

*The case studies of Ghana, the Republic of Congo, Rwanda and Tunisia provide a number of lessons for other African countries.* First, comprehensive well-designed and effectively implemented development plans are critical for African governments to promote high-level sustainable growth and reduce unemployment over time. Countries need to understand their key growth constraints and design employment-focused strategies to address these constraints.

Second, the case studies confirm the argument that the nature of growth matters for job creation and poverty reduction. Creating jobs to reduce unemployment requires strategies to stimulate adequate investment and growth in high value-added, labour-intensive agriculture, manufacturing and services sectors. Third, economic reforms that increase overall productivity and encourage more firms to enter the formal economy are critical for reducing vulnerable employment in the informal sector and for sustaining growth. However, strategies to reduce informality should be underpinned by strong capital and labour market measures that enhance access to credit by small enterprises and reduce mismatch between labour demand and labour supply.

Fourth, it is important to have effective strategies that provide incentives for innovative activities, increased technology transfer and adoption, and increased productivity. Finally, for the employment analysis to be useful in policy formulation and implementation there is need for clear definitions as well as accurate and frequently updated statistics on employment that distinguishes between formal and informal employment and wage and non-wage employment. Governments will only help to reduce poverty when they are able to create decent jobs and reduce unemployment.

*Economic diversification is a must for governments to reduce growth volatility and promote decent employment*

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Economic Commission for Africa



African Union

Due to the global financial crisis, the world economy contracted by 2.2 per cent in 2009, but there are signs that it has begun to stabilize. GDP growth in Africa declined from 4.9 per cent in 2008 to 1.6 per cent in 2009 and is expected to rise to 4.3 per cent in 2010. Despite the decrease in world commodity prices, primary commodity exports remain the major driver of growth in Africa.

The global economic downturn exacerbated the already high unemployment rates and vulnerable employment in Africa. Unemployment rates remained high and increasing especially among vulnerable groups in Africa even during the last decade of relatively high growth, making it difficult for the continent to reduce poverty.

Africa's high and growing unemployment rates stem from both supply and demand sources, including rapidly growing labour supply owing to high population growth rates, increased labour participation and slow growth in labour demand as economic growth has been both insufficient and dependent on capital-intensive enclave sectors with low employment elasticity

In the aftermath of the crisis, African countries should pursue policies that counter the effects of the recession and at the same time lay the foundation for long-term, high-level, sustainable and employment-focused growth. Besides a comprehensive development planning framework that embodies well-designed and implemented macroeconomic and sectoral strategies, this requires appropriate investment in infrastructure, human capital, improved domestic resource mobilization, factor market reforms, incentives to support private sector employment, and efforts to increase productivity.

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