Economic and Social Conditions in Africa in 2010 and Prospects for 2011

2 CHAPTER

AFRICA HAS STRENGTHENED the recovery that started after the global financial and economic crisis, with GDP growth rising from 2.3 per cent in 2009 to 4.7 per cent in 2010. For the continent as a whole, per capita GDP also grew in 2010, by 2.4 per cent. Growth prospects remain optimistic (despite downside risks), and Africa is looking forward to growth of 5 per cent in 2011.

The recovery was underpinned by various factors, including the rebound of export demand and commodity prices; increased inflows of FDI in extractive industries and of aid; a return of tourists; higher infrastructure investment associated with the countercyclical policies adopted by many African countries; increased activity in the service sector, particularly telecommunications, on higher consumer demand; and good harvests in some subregions. Two distinguishing features of the current recovery have been its swiftness and strength.

Yet growth was uneven across the continent, even if oil-importing and oil-exporting countries showed robust signs of recovery. Inflation stayed low, with notable variations, and monetary policy was frequently accommodative or neutral. Budget deficits increased as a result of expansionary fiscal policies, prompting some countries more recently to tighten fiscal policy and consolidate their budgets. Overall, Africa's current account deficits widened moderately in 2010, partly owing to the robust import growth fuelled by bold public investment, increasing private demand, and rising food and energy prices.

Africa's unemployment remains high, however, and its economic rebound is yet to translate into meaningful reductions in unemployment, especially among the youth and vulnerable groups. Hunger was on the rise in 2010 owing mainly to rises in food prices and declines in subsidies.[1] The combination of steep unemployment and food prices has instigated political and social unrest in some African countries such as Algeria, Egypt, the Libyan Arab Jamahiriya and Tunisia. The low employment content and poor social outcomes of Africa's growth are the result of lack of meaningful economic diversification and continued heavy dependence on commodity production and exports. These outcomes highlight the daunting challenges of accelerating growth and promoting structural economic transformation for Africa to achieve its social development goals.

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The economic recovery of many African economies occurred against a backdrop of renewed continent-wide interest in the state's role in development. An important manifestation was the revival of development planning and countercyclical macroeconomic policies in numerous countries. Most national development plans in Africa give the state a prominent role in removing growth constraints, building productive capacity and channelling private investment, both domestic and foreign, towards activities that could accelerate structural transformation and social development. To ensure that the envisaged policies and programmes in these plans are implemented, some governments made efforts to match planning with adequate budgeting in medium-term spending frameworks.

2.1 Economic performance in 2010

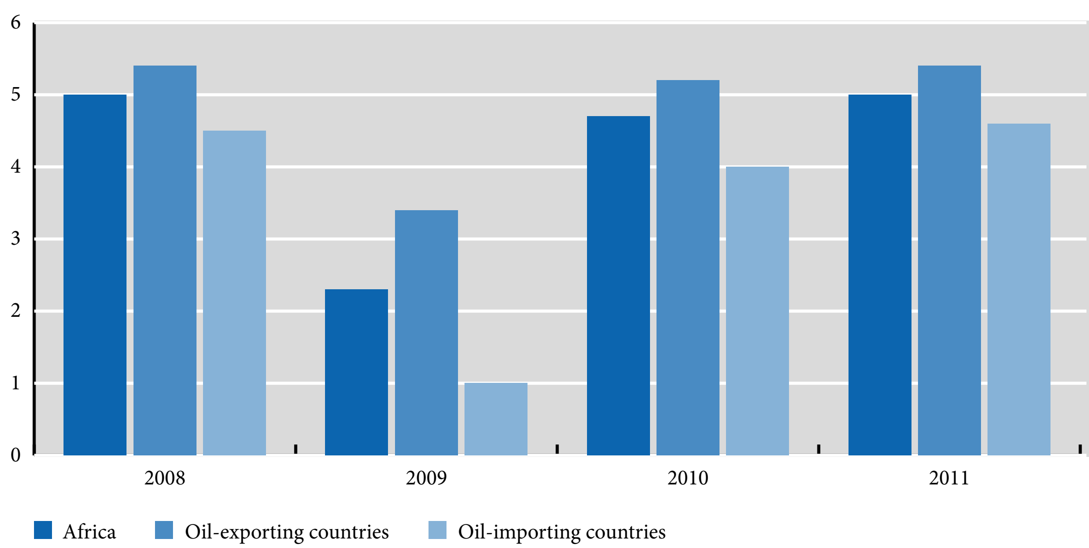
ECONOMIC ACTIVITY REBOUNDED across Africa in 2010. Although most economies regained some of the dynamism lost in 2009, the pace of recovery was uneven according to the economic structure of countries and subregions.

Uneven growth among countries …

Oil-exporting countries (5.2 per cent) expanded more strongly than oil-importing countries (4 per cent) (figure 2.1), perpetuating the trend of the last decade.

Figure 2.1

Growth in Africa, oil-exporting versus oil-importing countries, 2008–2011 (%)



Source: *UNECA calculations based on UNECA and UN-DESA databases, November 2010.*

One important feature of the oil-exporting countries' growth is the growing prominence of their non-oil sector, with a sustained, increasing share in GDP growth over the last few years. The strength of their non-oil sector reflects efforts in these countries to restructure their economies.

Africa's growth benefited most from rising commodity demand, especially from emerging economies such as India and China, and from higher commodity prices (chapter 1). However, although commodity revenue still represents over 50 per cent of sources of growth in Africa, other growth factors exist and vary in importance across countries. These factors include increasing inflows of FDI in extractive industries, ODA and debt relief, increased productivity, the return of tourists after the crisis, and a notable rise in revenue from trade services (chapter 3). Expansionary fiscal stances and accommodative monetary policies, among other factors, also lifted domestic demand and growth rates in many African countries. Improved macroeconomic management remains an important additional factor that both underpinned recent expansion and improved medium-term growth prospects.

Africa's growth benefited most from rising commodity demand, especially from emerging economies such as India and China as well as from higher commodity prices

Africa's recovery is associated with a notable increase in private capital flows (chapter 3). Although estimates show a decline in total FDI to Africa in 2010, FDI flows to the extractive sector increased, reflecting burgeoning mineral demand and prices (UN-DESA 2010). Remittances continued to represent the most important source of capital flows to Africa after FDI in 2010, equivalent to about 7 per cent of African GDP. Aid flows to Africa grew by 4 per cent in 2010 despite economic difficulties faced by many donor countries. In addition, some African countries continued to benefit from debt relief.

Productivity rates seem to be increasing across Africa, although they remain low by world standards. For example, analysis of growth accounting in the United Republic of Tanzania demonstrates that growth has been strongly driven by improvements in total factor productivity since the late 1990s. In the early1990s, the contribution of total factor productivity to growth was negative (-0.7 per cent). The trend since reversed and the contribution grew significantly to 2.3 per cent in 1997–2003 and to an estimated 2.7 per cent in 2004-2009 (Atkinson and Lugo, 2010). The United Republic of Tanzania's average GDP growth rate increased from 2.4 per cent in the early 1990s to 4.9 per cent in 1997–2003 and at 5.2 per cent since in 2004-2009. This stronger growth reflects, among other factors, the impact of structural reforms that led to increased FDI and public investment, giving room for possibly stronger growth in the future (Amor et al., 2004; Treichel, 2005).

Reflecting continued good economic management, many African countries maintained expansionary fiscal and monetary policies in 2010 while fostering sound and sustainable internal and external balances (discussed below). They had improved their macroeconomic management and outcomes, including budgetary allocations and exchange rate management, several years earlier. Over the last 10 years, these measures helped many African countries, including some with limited commodity dependence, to sustain high growth and significantly diversify their exports and production.

Export diversification covered both traditional and non-traditional products such as flowers and manufactures, trade services (chapter 3) and tourism. Africa was the only region to achieve a tourist growth rate of 9 per cent in 2010, thanks partly to the momentum created by worldwide publicity of the FIFA 2010 World Cup in South Africa and economic recovery in tourist-sending countries. The outlook for tourism growth in 2011 is positive (WTO, 2010).

Oil-producing and non-oil producing countries have registered rapid growth in the non-oil and mineral sector, and if this is sustained, Africa is poised to become the fastest-growing region in the 21st century. Kenya, an oil-importing country, provides a good example of an African country that experienced significant transformation and sustained growth rates without depending on commodities (box 2.1).

Box 2.1 Non-commodity-related factors underpinned growth and diversification in Kenya

Kenya's economy has moved from stagnation in the 1990s to broad-based robust growth in the last 10 years. Growth peaked at 7.1 per cent in 2007 before the economy was hit by the four crises of post-election violence, food, energy and drought. Even though these shocks significantly reduced growth in 2008 and 2009, relative to many countries, the Kenyan economy was able to turn around and is now back on the growth trajectory of before the four crises.

While the agriculture sector continues to dominate the economy—accounting for at least 22 per cent of GDP in 2000-2009—other sectors have been the main drivers of the broad growth. The information and communications technology (ICT) sector grew at an annual average rate of at least 20 per cent over the period 2000–2009. During this time the financial sector deepened, as financial institutions embraced innovations in ICT to drive expansion, boosting the sector's contribution to GDP from 3.5 per cent in 2005 to 5.7 per cent in 2010. Tourism grew by 8 per cent a year over 2005-2010.

Other sectors with above-average GDP growth during 2000–2009 were construction, transport and storage, wholesale and retail services, and water supply. Manufacturing and real estate-related services grew at about the same pace as the overall economy, at more than 4 per cent annually. According to UNCTAD, Kenya has increased the number of tariff lines that it is exporting by two thirds, driven mainly by manufacturing growth.

The Government has played an important role in these growth results. It prepared a robust strategy for reviving the economy in 2003–2007, which targeted investments in infrastructure, agriculture and social development in a stable macroeconomic environment and an expansionary fiscal policy. The last was enabled through greater fiscal space due to improved domestic resource mobilization. The Government also made significant monetary policy changes, including reducing banks' reserve requirements and liquidity ratios, which led to an injection of loanable funds into the economy that were accessible to both the Government and private sector.

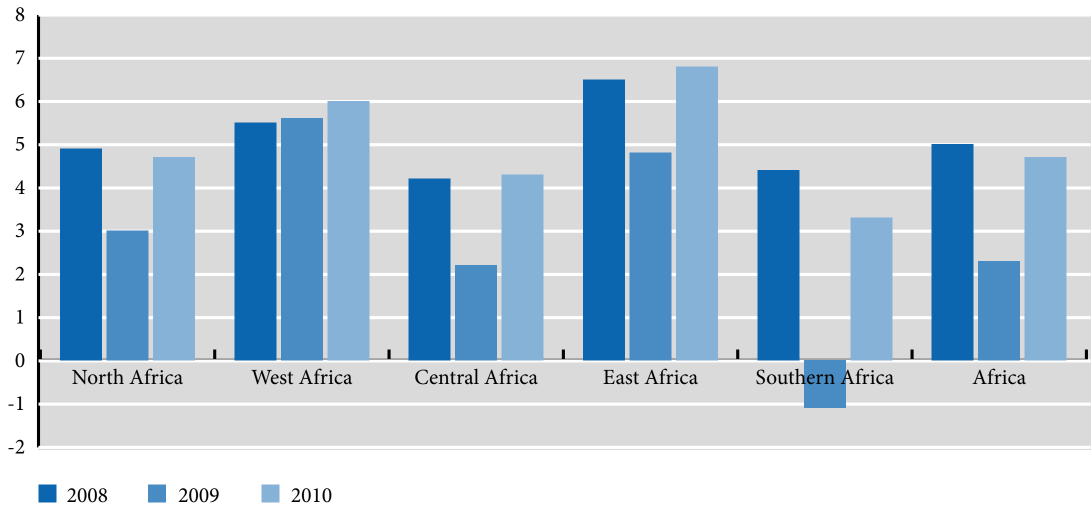
The strategy has been succeeded by Vision 2030, also with a significant role for the state. It has three key pillars: economic, social and political. The state has set up an independent Vision 2030 Delivery Board under the State Ministry of Planning and Vision 2030, which works closely with the National Economic and Social Council. The board coordinates and monitors selected flagship projects' implementation, which is driving the current strong economic growth.

… and among subregions

In addition to differences between oil-exporting and oil-importing countries, Africa's aggregate GDP growth figures hide important variations among the continent's five subregions. East Africa (6.8 per cent) and West Africa (6 per cent) were the strongest performers in 2010. They were followed by North Africa (4.7 per cent), the main oil-producing subregion; Central Africa (4.3 per cent); and Southern Africa (3.3 per cent) (figure 2.2). Reasons for this variability are now discussed, by subregion.

Figure 2.2

Subregional growth performance 2008–2010 (%)



Source: *UNECA calculations based on UNECA and UN-DESA databases, November 2010.*

West Africa

Economic performance improved in most West African countries in 2010. Important growth factors included high oil prices and revenue as well as increased non-oil activity (Nigeria), greater activity in the construction and services sector (Ghana), strong performance in agriculture and mining (Sierra Leone) and increased rubber export earnings (Liberia). Guinea and Niger recorded weak growth in view of continued political disturbances and insecurity. GDP growth slowed in the second-largest subregional economy, Côte d'Ivoire, in 2010, partly owing to power shortages and the political uncertainty before and after elections in November 2010. Disputed election results and political and security repercussions are likely to undermine growth in 2011 as well.

East Africa

East Africa sustained the same level of robust growth as in 2009 thanks to impressive growth of Ethiopia, Rwanda, the United Republic of Tanzania, and Uganda. These countries recorded notable expansion in their industrial services sectors, especially the telecommunication subsector and construction. Additional growth factors in the fastest growing economies in the subregion included increased agricultural output (Ethiopia), rising mining output (Tanzania) and continued robust investment in donor-funded infrastructure development (Ethiopia and Tanzania). Elsewhere, such as Mauritius and Kenya, growth recovery also gathered momentum. A political stalemate continued to affect activity in Madagascar, though growth switched from a contraction of 3.7 per cent in 2009 to 0.9 per cent in 2010.

North Africa

Most countries in this subregion recovered strongly in 2010. GDP growth rebounded markedly in Libya and Mauritania, reflecting increased government spending and robust activity in agriculture and construction (as well as mining in Mauritania). The Egyptian economy kept its growth momentum of recent years, as the positive demand spill-over of expansionary fiscal policy continued to be felt. Similarly, growth accelerated in Sudan, partly owing to robust growth in services. GDP growth also picked up in Tunisia with rising industrial output and investment, although the rebound was limited by the modest recovery in its main trade partner, the EU.

Economic performance improved in most West African countries in 2010.

Overall, Southern Africa enjoyed strong growth in the first three quarters of 2010, thanks to its robust exports and increased activities in mining and manufacturing and the dividends of the 2010 FIFA World Cup held in South Africa.

Morocco's growth, although still relatively robust, tapered off, as agricultural production fell after the bumper 2008/09 harvest.

Central Africa

Growth rates were usually modest, with an average rate of 4.3 per cent in 2010, up from 2.2 per cent in 2009. All countries in the subregion, except Congo and Gabon, expanded by less than 5 per cent in 2010, mainly because of poor export diversification, a continued fragile political and security situation in Central African Republic (CAR) and declining oil production in Equatorial Guinea, Gabon and Cameroon. Oil output in these countries fell because of some oil fields' declining production capacity. However, they continued to strongly expand non-oil activity, including mining.

Southern Africa

Overall, Southern Africa enjoyed strong growth in the first three quarters of 2010, thanks to the FIFA World Cup dividends (South Africa), robust exports and increased activities in mining and manufacturing. Growth momentum lost some strength, however, during the fourth quarter of the year, as private consumption weakened in the subregion. Malawi, Mozambique and Zambia maintained growth rates of about 6 per cent or more, on rising mining output in all three countries and bumper harvests in Mozambique and Zambia. Economic activity fully recovered in Botswana and Namibia, where GDP growth rates reached pre-crisis levels, thanks mainly to global demand for minerals. Zimbabwe maintained its recovery momentum. Its growth benefited from an improved macroeconomic environment, with inflation at 4.7 per cent in 2010) as well as increased industrial capacity, manufacturing output and tourism.

A largely jobless recovery

Anecdotal evidence and (albeit scant) recent unemployment data suggest that job creation was disappointing in 2010, especially in light of the strong output recovery. This maintains a prime feature of the recent growth spell across Africa (UNECA and AUC, 2010). The narrow base of its economic structure has contributed to Africa's high levels of unemployment. Job creation remains limited in countries where much of the economic upturn was driven by capital-intensive extractive sectors that have few forward and backward linkages with the rest of the economy.

In other countries it remains weak owing to modest recoveries, with the pace of economic growth far lower than what is required to make a significant dent in unemployment. South Africa is a case in point: thousands of the jobs lost when its economy dipped into recession in 2009 were not recovered in 2010 because of the modest growth.

All these factors, combined with poor educational quality, rapid population growth and labour-market imperfections, have kept Africa's growth rates consistently below those needed to create adequate employment and to reduce poverty (UNECA and AUC, 2010).

The unemployment rate did decline, however, in a few countries such as Egypt and Mauritius (though only moderately), owing to the strength of the growth recovery and the nature of the sectors involved (UN-DESA, 2010). A particular concern is that youth unemployment has remained at around a high 18 per cent for the last decade—young people continue to face severe hurdles in gaining decent employment. The recent wave of political instability in North Africa illustrates the severity of the situation.

Generally subdued inflation across the continent

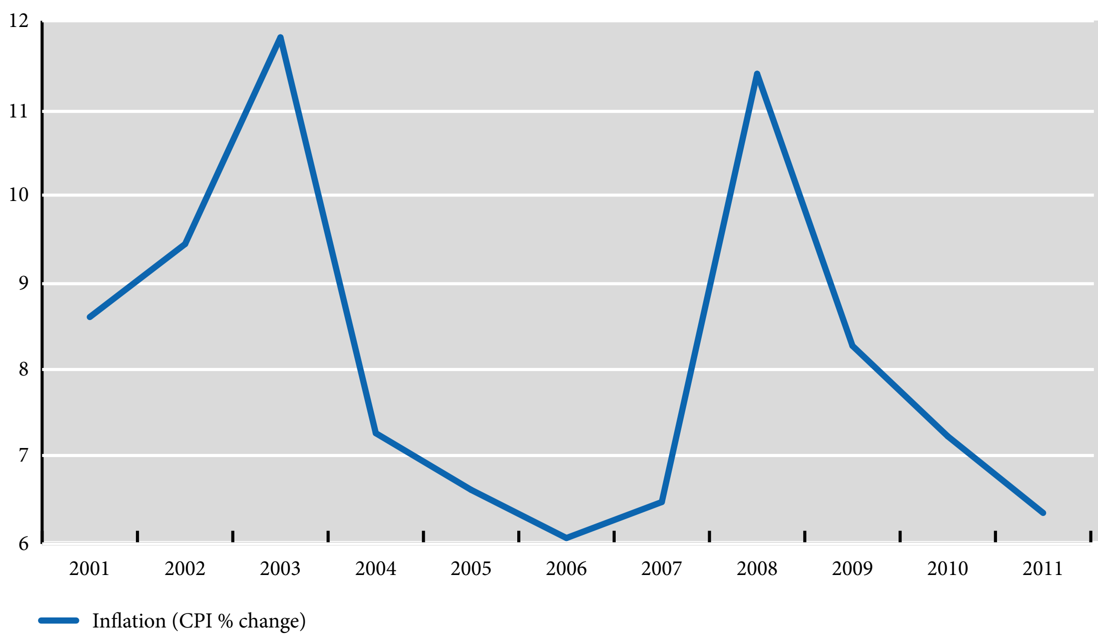
Africa's consumer price inflation decreased from 8.3 per cent in 2009 to 7.2 per cent in 2010 and is expected to decline further to 6.4 per cent in 2011 (figure 2.3). This trend reflects increased supply of agricultural products in some countries, the strength of several currencies, excess capacity, and competitive pressures across the continent. Consumer prices declined most in East and Southern Africa (notably Uganda and Zambia) in 2010, partly owing to relatively stable food prices, helped by good weather conditions and abundant harvests. Elsewhere, intense competition in telecommunications led to steep reductions in prices in several countries. Against the prevailing trend, a few countries saw rising inflation, including Mozambique and Sierra Leone.

Inflation pressures in 2010 varied significantly across countries for different and sometimes country-specific reasons. These included increased domestic demand in Congo, Libya and Nigeria; exchange rate depreciation in Mozambique and Sudan; robust public spending in Algeria; exchange rate stability in Ghana (which offset inflationary pressures linked to higher government spending); lagged effects of currency depreciation and a goods and services tax in Sierra Leone; and excess capacity in the productive sector in South Africa.

Food prices in Africa remained stable, and even declined, before the last quarter of 2010. This contrasts with the international market situation where food prices, especially rice and wheat, increased owing to higher demand and to supply shocks. Floods in Australia, Thailand and Vietnam reduced harvests and affected their quality. Increased agricultural output kept prices stable in most sub-Saharan African countries. North Africa is the only subregion where prices rose significantly, reflecting its dependence on imported wheat and many other food items.

Figure 2.3

The inflation trend over the past decade



Source: *UNECA calculations based on UNECA and UN-DESA databases, November 2010.*

Continued accommodative or neutral monetary policy stance in most economies

In view of the subdued inflation and the need to stimulate domestic demand and nurture the recovery, monetary policy stayed accommodative or neutral in the majority of African countries. For example, the benign inflation outlook provided enough leeway to the South African Reserve Bank to sustain monetary easing with the aim of supporting the recovery. The repurchase rate was reduced by 50 basis points to 6.0 per cent in September 2010. Also, in the Communauté Financière Africaine (West Africa) and Coopération Financière d'Afrique (Central Africa) Franc zones, the two central banks lowered interest rates and reserve-requirement ratios.

In contrast, monetary tightening was observed in the Democratic Republic of the Congo (DRC), Ethiopia and Nigeria. Central banks in the DRC and Ethiopia targeted limited growth of money supply to keep inflation in check. Ethiopia has adopted a money-targeting framework, pursuing a moderate expansion of the monetary base and phasing out the monetization of the government deficit. In Nigeria, as inflationary pressures mounted on account of the strong performance of the real sector and increased government spending, the central bank raised its key policy rates in September 2010 and embarked on open-market operations to control liquidity.

One of the challenges of monetary policy, particularly in some countries with expansionary or neutral monetary policy stances, was the weak impact of reduced interest rates on the real sector. In addition, despite low interest rates, the volume of credit to the private sector stagnated as commercial banks adopted a cautious attitude amid the global economic uncertainty.

Although the banking sector remained generally well capitalized and adequately provisioned across the continent, frictions appeared here and there. The bankruptcy of several illegal deposit-taking institutions mirrored gaps in the regulatory and supervisory machinery. Commercial banks' overexposure to bad loans to the cotton sector in Benin, Burkina Faso, Chad and Mali was a substantial vulnerability, since domestic cotton prices have been low for many years. Elsewhere, non-bank institutions—such as pension funds, which account for a large share of total financial assets—are not always properly regulated and supervised, presenting serious risks to the financial system.

Still-deteriorating fiscal balances

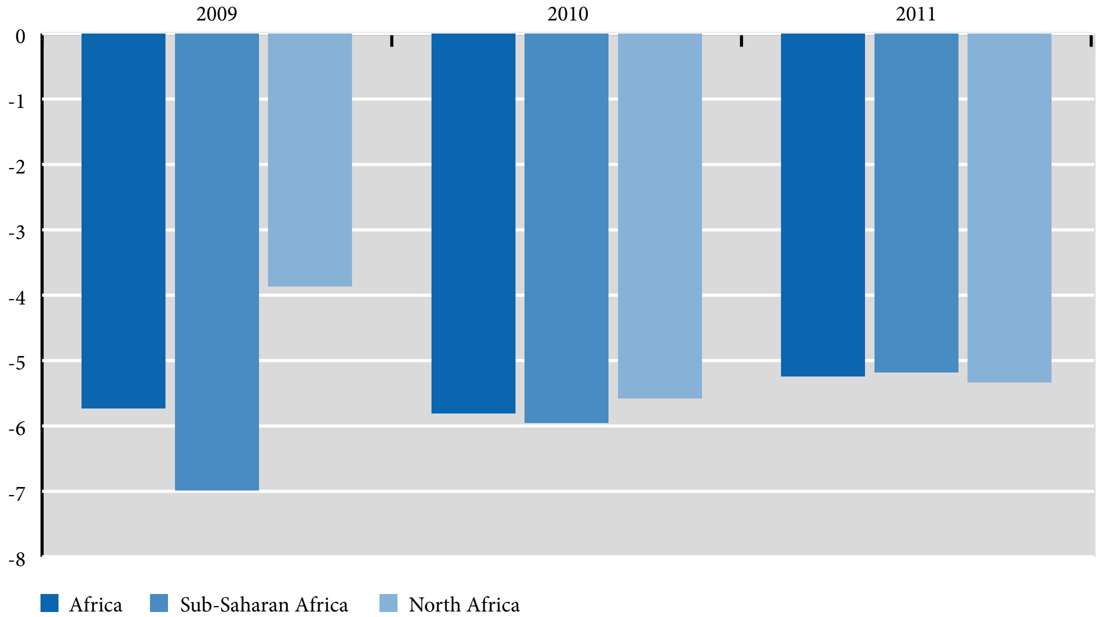
Africa's overall fiscal balance marginally deteriorated in 2010, from a deficit of 5.7 per cent of GDP in 2009 to 5.8 per cent, mirroring to some degree relatively high levels of public spending (figure 2.4). Governments maintained stimulus-related spending to cushion the lagged effects of the global crisis and to support the recovery. These public spending levels also reflected new and costly public sector pay regimes and election-related fiscal injections, as almost a dozen elections were conducted in 2010.

Africa's continued accommodative fiscal stance was also the manifestation of efforts to bridge the infrastructure gap, an essential pillar of several countries' medium-term development plans.

More important, the continued accommodative fiscal stance was also the manifestation of efforts to bridge the infrastructure gap, an essential pillar of several countries' medium-term development plans. Such efforts have gained traction amid a growing consensus on the important role of the state in steering African economies onto a sustainable development path, especially in helping to build and strengthen the nation's productive capacity.

Figure 2.4

Evolution of the fiscal position, 2009–2011



Source: *UNECA calculations based on UNECA and IMF databases, November 2010.*

Despite economic recovery and increased growth rates, most countries continued to face revenue shortfalls in 2010, largely because they maintained relatively high public spending. Countries belonging to the Southern African Customs Union (SACU), especially South Africa, were among those with the largest revenue shortfalls. SACU revenue, which accounted for much of the tax revenue in these countries, fell sharply. Although forecast to recover somewhat, it is unlikely to match previous levels. These expected chronic shortfalls, due partly to a reduction in the Common External Tariff rates, pose some risks for sustainability of fiscal deficits and public debts.

Similarly, worsening fiscal balances and concerns over debt sustainability prompted some countries to shift the objective of fiscal policy from short-term demand management to medium-term fiscal sustainability. Mauritania and Sudan, for example, limited the widening of their fiscal deficits through a combination of increased government revenue—achieved by strengthening customs and tax administration capacity—and reduced discretionary spending. South Africa's 2010/11 budget, unveiled in February 2010, aimed at fiscal consolidation, targeting real growth of government spending at around 2–3 per cent a year.

Marginally worse external positions despite thriving external sectors

Africa's current account deficit widened slightly in 2010, from 1.7 per cent of GDP in 2009 to 2.1 per cent in 2010 (figure 2.5). This change, however, concealed wide differences across the continent, particularly between oil-importing and oil-exporting countries.

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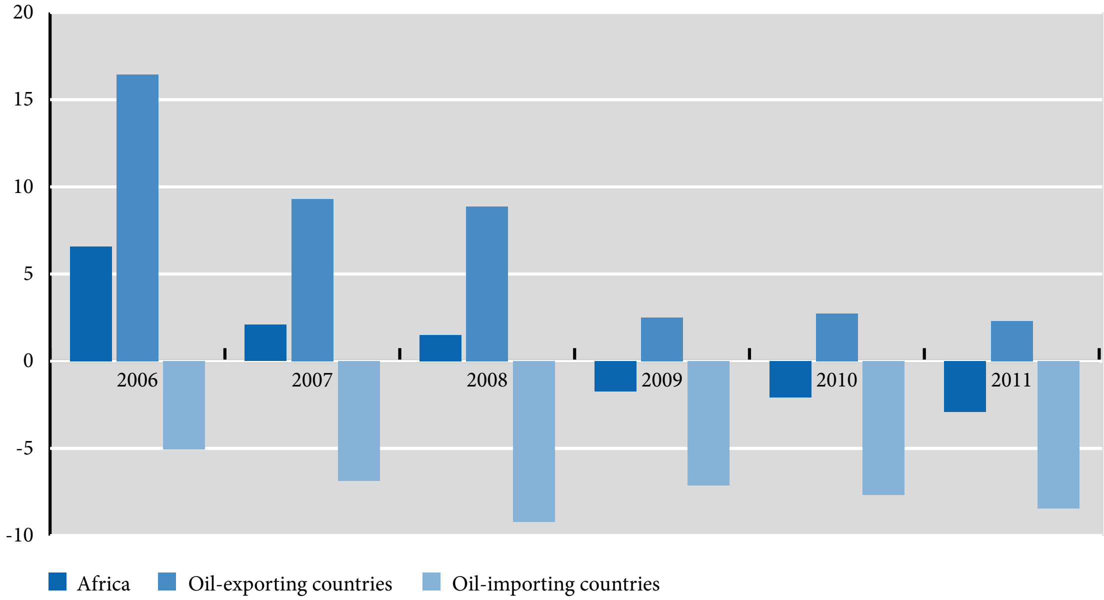
Figure 2.5

Current account trends, 2006–2011



Source: *UNECA calculations based on UNECA and IMF databases, November 2010.*

Current account deficits widened significantly in some oil-importing countries owing largely to robust import growth fuelled by bold government-led investment programmes, rising private demand and increasing oil and energy prices. As recovery took hold in their major trading partners, these countries' export earnings rebounded, although at a much slower pace than that of imports. Oil-importing countries emerging from conflict (Burundi, Liberia and the DRC) and those belonging to SACU posted the largest current deficits.

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The key factors in these deficits included increased imports of capital goods and food, limited export capacity in post-conflict countries, and severe reductions in joint revenue transfers in SACU countries stemming from lower payments from its customs union. The average deficit for oil-importing countries is misleading in that it conceals the shrinking of deficits in some mineral-producing countries such as Burkina Faso, Mali and the United Republic of Tanzania. These countries benefited from improved terms of trade owing in part to the high price of gold, one of their main exports.

Aside from these gold-producing countries, countries with improved current account balances were mainly oil exporters. The external position of this group strengthened in 2010, reflecting rising oil prices and a significant rebound in global oil demand. Rising inflows of current transfers (associated with IMF disbursements) also helped some countries' current account balances to move into surplus in 2010.

Africa's widening current account deficit was offset by multilateral disbursements and an upward trend of external capital flows in the aftermath of the crisis. These flows also helped keep gross international reserves at comfortable levels, particularly in countries with fixed or managed exchange rate regimes.

The recovery of private inflows to some of Africa's most advanced economies (e.g. Egypt, Nigeria and South Africa), partly driven by interest and growth differentials between these countries and the developed world, combined with relatively high inflation rates compared to those of their trading partners, led to varying nominal currency appreciations in 2010.

2.2 Recent trends in social development

DESPITE THE RECOVERY, progress in achieving Africa's social development goals remains slow and mixed (UNECA, 2010). Still, social development has undoubtedly benefited from the expansionary fiscal policy adopted by many countries, directed to cushion the lagged social effects of the recent global crisis and to sustain progress in meeting the Millennium Development Goals (MDGs) and in addressing gaps in human capital.

Progress towards the MDGs is closely linked to economic and social development in Africa and elsewhere. As normative objectives, they define long-term visions, built on forging the consensus on the common aims of the international community towards numerical targets. The basic set of human rights inherent in the MDGs creates a minimum platform for an educated and healthy population that can participate in economic, social and political development. The MDGs are also instrumental targets in that they frame the priorities for policy direction and resource allocation.

The instrumental value has been highlighted since the *Outcome Document of the Global MDG Review* in 2005 that urged low-income countries to integrate overall national development plans and poverty reduction strategies with the MDGs (UN, 2010a). It has brought about a renewed interest in the centrality of the state in creating an enabling environment and in fostering MDG-focused economic and social development.

Slow progress towards human and social development

As has been well documented, the relatively strong economic performance in Africa since the turn of the 21st century has not resulted in satisfactory social development outcomes (UNECA and AUC, 2010, among others). For example, poverty rates have remained high in sub-Saharan Africa and the recent positive growth spells have not transformed into solid employment creation, one of the most important means to reduce poverty. Indeed, the employment-to-population ratio has largely stagnated since 1991 (UNECA, 2010). West Africa has even registered a decline in the employment-to-population ratio over the last decade, as aggregate output has remained heavily dependent on extractive industries.

The lack of employment creation—as said, partly due to the structural features of Africa's economies—is one of the main causes of persistent and chronic poverty. Narrow drivers of economic growth and their capital intensity do not create jobs. Unemployed heads of poor households become risk adverse, failing to make investments in education and health, thereby reinforcing their household's marginalization from social, economic and political life. At the same time, recent increases in labour productivity augur well for long-term growth (UNECA, 2010). But to translate them into high, sustainable growth, strong measures are needed to promote the structural

Despite the recovery, progress in achieving Africa's social development goals remains slow and mixed.

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transformation that diversifies employment creation and ensures inclusion of vulnerable poor groups.

In health, many African countries have recorded declines in malnutrition, with the continent-wide proportion of the population below the minimum level of dietary energy consumption falling from 34 per cent to 30 per cent, excluding North Africa, where less than 5 per cent of the population is undernourished (UNECA, 2010). This positive trend may be threatened by high international food prices.

Important progress has also been made in education, as the primary school enrolment rate jumped from 54 per cent in 1990 to 76 per cent in 2008 (UN, 2010b). Further progress is, though, hampered by the cost of education, especially in the 27 African countries that have no legal guarantees for free schooling. Even when education is provided free, ancillary expenses, such as uniforms and transport and the opportunity cost of children not participating in farm work, hinder schooling of students from low-income backgrounds. Other leading obstacles are unequal opportunities and access, due to gender and geographical biases.

Many African countries also face the challenge of improving the quality of education. Completion rates of primary school and pupil–teacher ratios, both proxies for quality provision, are inadequate. Despite some improvements, the completion rates are around 60 per cent in most countries and class size has remained very large with consequent high drop-out rates. The teacher supply gap has been estimated at over 4 million, which has serious implications for increasing primary school attendance and for reducing class size (UNESCO, 2010).

The effect of economic growth on education is constrained by limited post-primary educational access. Human capital needed for successful structural transformation goes beyond the numeracy and literacy skills provided by primary school cycles. This is acknowledged by the African Union's Second Decade of Education for Africa (2006–2015), which emphasizes higher education as a key area for sustaining development.

Many African countries are making notable progress regarding improvements in some aspects of gender equality. While, as noted earlier employment and poverty rates remain high among women, the majority of African countries are on track to achieve the MDG target of gender parity in primary education but, at higher levels of education, the disparity increases significantly.

Changes in women's representation in national parliaments from the baseline year of 1990 to 2009 have been impressive. Of 37 African countries with available data, 31 have increased the proportion of seats held by women, though six show a reduction. This has instigated calls for a minimum quota for women so that the gains made in parliamentary gender parity during past elections are not lost.

A positive note on progress towards women's empowerment and the cross-cutting impact of gender on other MDGs is that four of the leading African countries in terms of increased women's representation in parliament have emerged from civil conflict. This confirms that gender mainstreaming is part of the peace-building process

Although major concerns remain, many African countries have shown some progress towards achieving the health-related MDGs. The aggregate under-five mortality rate dropped from 180 to 129 per 1,000 live births from 1990 to 2008 (UN, 2010b). Africa, at its current rate of progress, is unlikely to reach the child mortality MDG, which requires a reduction in the child mortality rate by two thirds, by 2015. Nevertheless, against steep odds, Eritrea, Ethiopia, Liberia, and Madagascar have all reduced their under-five mortality rates by 50 per cent or more. Ethiopia, Liberia, Madagascar, Malawi and Niger have seen absolute reductions of more than 100 per 1,000 live births since 1990.

All the 31 countries with under-five mortality rates exceeding 100 per 1,000 live births in 2009 are in sub-Saharan Africa. Diarrhoea, malaria and pneumonia cause more than half the under-five deaths there. There is increasing evidence that this MDG can be achieved given adequate public policy attention and budget allocations. A common feature of countries that have made the most substantial progress in reducing child mortality, especially in sub-Saharan Africa, has been rapid expansion of basic public health and nutrition interventions, such as immunization, breastfeeding, vitamin A supplementation and provision of safe drinking water (UN, 2010b).

Assessing the extent of progress towards the MDG target of reducing the maternal mortality rate by three quarters, from 1990 to 2015, is a challenge.

Assessing the extent of progress towards the MDG target of reducing the maternal mortality ratio by three quarters, from 1990 to 2015, is a challenge. This relates mainly to the scarcity of reliable and accurate data. According to the latest estimates, maternal mortality dropped from 870 to 640 per 100,000 births from 1990 to 2008, indicating insufficient progress to achieve the target by 2015 (UN, 2010b). The proportion of women in the 15–49 age group that gave birth with trained health personnel present—an indicator of progress—was only 42 per cent in 2003–2008 (UN, 2010b).

Furthermore, similar to education equity, access to health services showed variations by income group and geographic location. For example, Ethiopia and Chad, which score poorly in providing delivery assistance by skilled health professionals, show wide disparities between the richest and the poorest quintiles. Only 3 per cent of the poorest quintile has access to delivery assistance compared with 50 per cent and 60 per cent of the richest quintile in these two countries, respectively (UNECA, 2009a).

Improvements in stemming the HIV/AIDs pandemic have been significant both in HIV incidence and treatment through antiretroviral therapy. In 22 sub-Saharan Africa countries, HIV incidence fell by 25 per cent from 2001 to 2009 (UNAIDS, 2010). Although the rate of new HIV infections has decreased, the total number of people living with HIV continues to rise. In 2009, that number reached 22.5 million, or 68 per cent of the global total. The majority of HIV victims are women. Pronounced progress is evident in reducing the incidence and impact of HIV among children younger than 15 years in Southern Africa, with 32 per cent fewer children newly infected and 26 per cent fewer AIDS-related deaths among children since 2001.

At end-2009, 37 per cent of adults and children eligible for antiretroviral therapy were receiving it in Africa (41 per cent in Eastern and Southern Africa and 25 per cent in Western and Central Africa), compared with only 2 per cent seven years earlier. AIDS-related deaths decreased by 18 per cent in Southern Africa over 2001-2009. An estimated 610 000 people died from AIDS-related illnesses in Southern Africa in 2009, compared with 740 000 five years earlier (UNAIDS, 2010).

Progress in access to safe drinking water and improved sanitation, which has a direct bearing on health status, has been steady across Africa. By 2008, nine countries showed an improvement in coverage of safe drinking water by over 90 per cent compared to 1990 coverage rates. For example, Uganda increased improved water supply coverage from approximately 40 per cent in 1990 to 80 per cent in 2008. Again, inequities in access and outcomes are determined by income quintile and geographical location. Evidence shows that average access to safe drinking water is 3.7 times high for urban households relative to their counterparts in rural areas (UNECA, 2010).

The benefits for social development of new technologies, especially ICT, are undeniable. Some are captured in MDG 8, which places cooperation with the private sector at the heart of access to ICT. The number of mobile subscribers in Africa has been consistently rising over the last decade. The number of Internet users has also greatly increased, *In sum, progress in social development is determined by economic growth and the extent to which this growth is shared.*

with many African states having 10–20 internet users per 100 of the population in 2008 (UNECA, 2010).

In sum, progress in social development is determined by economic growth and the extent to which this growth is shared, as well as by the quantity and quality of public services delivery. The delivery of services to achieve the MDGs, previously a clear domain of the state, has had a recent paradigm shift from the centrality of the state in directing social and human development, with non-state actors now playing an increasingly important role in services provision across the continent.

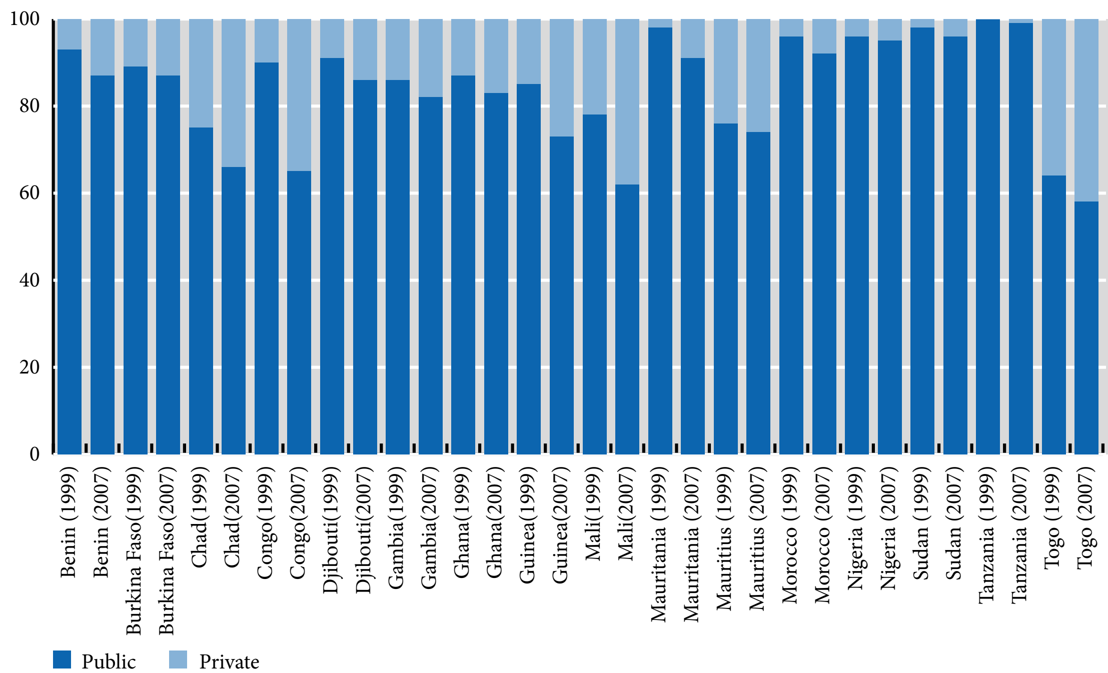
Switching balance in state and non-state provision of social services

Two main considerations have traditionally been used to justify the public provision of social services. First, that the market fails to deliver these services, given the externalities generated by education and health (and that market might be incomplete or absent). Second, scale economies, due to relatively large associated fixed costs, were best achieved publicly. However, these have become less important over time. Insufficient or poor public services delivery is one of the factors that have raised demand for non-state provision of social services, especially in education and health.

Private education provision has risen partly owing to the insufficient coverage of free primary schooling (figure 2.6). Also, the predominant concentration of public resource allocation at the primary level results in relatively high levels of primary enrolment, but leaves a high unmet demand for post-primary education. Provision at those levels by the private sector is therefore critical, as seen in the establishment of private institutions of tertiary education, which are vital in building a knowledge-based society (World Bank, 2005).

Figure 2.6

Public and private primary school enrolment, 1999 and 2007

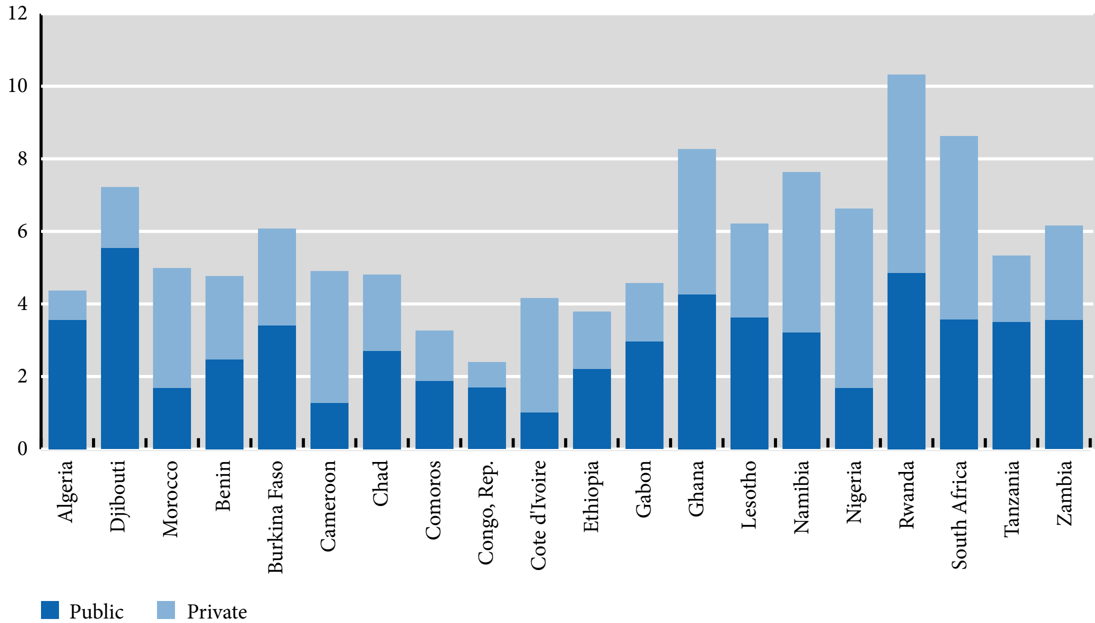


Source: *UNECA calculations based on UNESCO data, 1999–2007.*

Non-state actors are much more heavily involved in health than in education. The fairly limited public resources earmarked to health provision have given rise to private financing (figure 2.7). In sub-Saharan Africa, private health provision is estimated at $18.6 billion, or more than 50 per cent of the market.

Figure 2.7

Public and private health expenditure in selected African countries (% of GDP)



Source: *UNECA calculations based on the World Bank's World Development Indicators 2010.*

Non-state actors, particularly the private sector, are also involved in providing telecommunications and infrastructure services. In sub-Saharan Africa, the private sector, especially in mobile telephony, has been a crucial actor in telecommunications coverage. Part of its success is attributed to clear regulatory mechanisms and to the state's ability to attract private investors. Water and sanitation sectors attract little private interest owing to high initial investment combined with low rates of return. Indeed, the rate of return in water and sanitation projects is just a third of that in telecommunications (AfDB, OECD and AUC, 2007).

Changing role of the state in Africa's social development

The participation of non-state actors has led to a shift in the role of the state in delivering public goods and services. That role has moved from sole provision to complementarity or competition with the private sector.

> *The participation of non-state actors has led to a shift in the role of the state in delivering public goods and services.*

Reforms implemented from around the mid-1990s led to major changes in the state's role. These reforms focused on core government functions such as regulating the private sector, creating special agencies for specific functions (such as regulatory institutions for telecommunications), shifting service delivery down to the local level through decentralization, and making efforts to reform public financial management systems and to strengthen audit institutions.

However, although the regulatory framework in telecommunications, for example, has spurred dynamism, the absence of such a framework (or their limited implementation) in education, health, water and sanitation have prevented governments from using the full potential associated with greater non-state involvement.

Reforms have added responsibilities to the state. One example is the accreditation of non-state institutions in education and health and quality assurance in a multi-stakeholder involvement. Yet these attributions occurred against a backdrop of eroded and overstretched state capacity, caused by years of fiscal austerity and public sector retrenchment. The state's capacity needs therefore expanded and changed direction when it moved from provider to regulator (or both).

The involvement of non-state actors has had positive implications for supply and efficiency, but equity remains a concern: the state in Africa now faces the challenge of some trade-off between efficiency and equity in pursuing social development. The challenge is striking a balance between market-oriented policies and equity considerations, while providing a public service package responsive to the broader development agenda (box 2.2).

Box 2.2: State and non-state participation in fostering economic and social development in Zambia

Zambia's Poverty Reduction Strategies, besides promoting growth, aim to improve delivery of social services, foster appropriate policies for fighting HIV/AIDS, address gender inequality, and protect the environment. A new strategy was developed in 2005 alongside a new National Development Plan for 2006–2010.

Zambia's national development plans since the early 2000s have advocated a growth strategy that depends heavily on the private sector, with the state providing the necessary environment for market-led development. The Fifth National Development Plan (2006–2010) focused on improving the business climate; providing for the delivery of basic services; strengthening financial accountability systems; and developing the financial system.

Private sector and civil society involvement in policy development was strengthened through this period. The Zambia Business Council provides the platform for a more formalized consultative process in which key government institutions and the private sector engage in dialogue on key policy issues. The council was established as an apex body with four key cabinet ministers and the representatives of the Zambia Development Agency, business associations, and the Zambia International Advisory Council.

Some concerns remain. The involvement of non-state actors in policy development is not fully institutionalized, and other concerns relate to the capacity of civil society organizations and of the business community to engage with government in policy development, monitoring and implementation.

Source: Bwalya, Phiri and Mpembamoto, 2009.

2.3 Favourable outlook for 2011, barring exogenous shocks

AFRICAN ECONOMIES ARE expected to continue strengthening and broadening their economic performance in 2011, as the continent's GDP growth accelerates from 4.7 per cent in 2010 to 5 per cent in 2011 (figure 2.8). This upturn reflects a strong economic performance in those oil-exporting and oil-importing countries that will benefit from the growth factors discussed above. It is expected that GDP growth for oil-exporting countries will climb from 5.2 per cent in 2010 to 5.4 per cent in 2011, and that for oil-importing countries from 4.0 per cent to 4.6 per cent. Continued investment in infrastructure and in the production of metals and minerals for export is expected to underpin economic growth in some oil-importing countries.

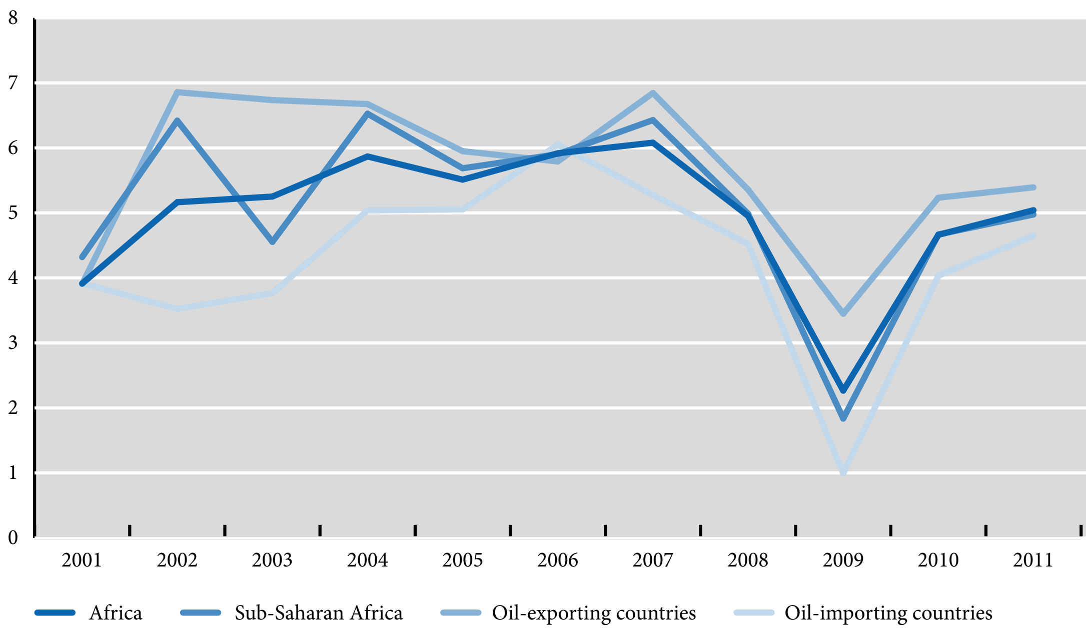
By subregion, East Africa and West Africa, each with 6.4 per cent growth, are set to remain the fastest growing in 2011. In East Africa, GDP growth rates of Ethiopia and Uganda are forecast at about 7 per cent, while, Nigeria, the largest economy in West Africa, is forecast to grow at 6.5 per cent in 2010.

In West Africa, the strong performance will owe much to expected impressive growth in Ghana, Liberia and Nigeria, which are all likely to grow by more than 7 per cent. Growth factors include commercial exploitation of oilfields in Ghana, increasing mining FDI in Liberia and continued dynamism of the non-oil sector in Nigeria. However, subregional growth is likely to be affected by the political conflict in Côte d'Ivoire.

Growth rates in North Africa, Central Africa and Southern Africa will follow, with GDP expected to expand by 5.2 per cent, 4.0 per cent and 3.8 per cent, respectively.

Figure 2.8

GDP growth in Africa, 2001–2011



Source: *UNECA calculations based on UNECA and UN-DESA databases, November 2010.*

> *Political unrest or change in, for example, Egypt, the Libyan Arab Jamahiriya and Tunisia are likely to have notable effects on growth in North Africa in 2011.*

Although the expected growth rates in various groups of countries and subregions are higher than those of 2009 (markedly) and 2010 (slightly), they are still somewhat lower than those seen before the global crisis. Further, these rates are still below the levels needed to have a significant impact on unemployment and poverty reduction across the continent.

The economic recovery is expected to take place in a context of moderate inflation. Inflationary pressures are seen receding or remaining flat in the majority of countries, as private demand pressures are likely to be moderate and as a number of countries scale down recourse to central bank borrowing to finance fiscal deficits.

The positive outlook for 2011 is subject to many potential downside risks and uncertainties. One risk relates to the pace and duration of growth in Africa's economic partners, particularly emerging economies such as China and India, which affect the demand and price for African exports, but at the same time lead African countries to once again deepen their specialization in the primary sector. The strength of the recovery in Europe and the US will also influence the pace of African export growth, tourism receipts, remittances and ODA, and hence GDP growth prospects. With 17 presidential and parliamentary elections scheduled in 2011, another risk pertains to possible political disturbances and their ruinous impact on economic activity. Also political unrest or change in, for example, Egypt, the Libyan Arab Jamahiriya and Tunisia are likely to have notable effects on growth in North Africa in 2011. Adverse weather conditions could also depress agricultural output, increase food prices and slow activity in other sectors, constraining economic growth. Rising food prices and high unemployment are threats to food security as well as social and political stability in Africa as a whole.

Africa's medium-term growth prospects will probably be influenced by fiscal policy stances. In particular, premature and severe fiscal tightening will hamper domestic demand and compromise the chances of consolidating the nascent recovery. Fiscal policy needs to be redesigned to strengthen infrastructure and job creation as well as direct the structural transformation required for sustained economic and social development.

Another risk relates to the availability of financing, especially ODA. Although ODA flows to Africa remained stable during and after the crisis, the fragile recovery in developed countries and the possible threat of double-dip recession in some of them create considerable uncertainty about future ODA volumes (UN-DESA, 2011).

2.4 Conclusions

ECONOMIC ACTIVITY IN Africa recovered strongly in 2010, and the growth momentum is expected to continue, with GDP growth trending upward in 2011. Part of the economic revival now under way is attributed to continued supportive fiscal and monetary stances. Relatively robust public spending buoyed growth, but also sent countries' fiscal deficits soaring. The external position also weakened, although slightly.

The strong public spending and widening fiscal and current account deficits occurred as African governments felt compelled to mitigate the economic and social effects of the crisis. The crisis highlighted the continent's need for more effective policies for structural transformation, employment generation, food security and poverty reduction. Such policies—beyond short-term countercyclical fiscal and monetary measures—must include incentives for investment in the non-commodity sectors.

The need for such policies partly explains why interest in development planning and the role of the state in economic and social development has resurged in Africa in recent years. The state now plays a more strategic development role, which involves not only building and strengthening productive capacity through the removal of growth-inhibiting factors (including infrastructure bottlenecks and a poor economic structure), but also effectively delivering public services to ensure that social objectives are achieved.

The role of the state in public service delivery has also been extended to embrace regulatory functions. Such functions were not always effectively discharged and sometimes were even missing in important social sectors. Regulatory frameworks should therefore be introduced or rendered more effective in spheres such as education, health, water and sanitation where non-state actors play an important role. These frameworks should help to establish not only criteria for competitiveness, but also for accreditation and quality assurance, while ensuring attention to equity and efficiency concerns. Some important resource implications flow from the state performing these functions, and can lead to a trade-off between the long-term development objective of structural transformation and the medium-term concern for sustainability of fiscal deficits and public debts.

The need for effective economic transformation policies partly explains why interest in development planning and the role of the state in economic and social development has resurged in Africa in recent years.

Avoiding such a trade-off and ensuring that the developmental role of the state—as envisaged under various development plans—is fulfilled require additional and more effective fiscal resources. Particularly given the relatively low levels of tax collection in many countries, African governments have much scope to increase revenue. Countries should step up their efforts to, for example, widen the tax base, capture more revenue from the informal sector and improve how tax exemptions are administered, in order to bring government revenue closer to its potential. Improving the efficiency of public spending—including stronger public financial management systems—would help ensure better value for money from public resources and donor support.

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Notes

1 A number of African countries such as Egypt subsidize a variety of basic food items, fuel and electricity. Some countries (e.g. Sudan) reduced their subsidies in 2010 due to budgetary concerns while others (e.g. Ethiopia) implemented a range of new subsidies because of mounting living costs especially for the poor.