Economic and Social Developments in Africa and Prospects for 2012

2

CHAPTER

AFTER A DECADE of impressive economic growth, Africa's momentum slowed in 2011, weighed down by contraction of economic activity in North Africa due to political unrest there, and the lingering indirect effects of the 2007-2009 global economic and financial crises in developed countries.

Many African countries are, though, sustaining strong impetus, supported by rising commodity prices and by strong domestic demand (owing to growing incomes and improving economic and political governance). Growth prospects remain optimistic, with output for the continent as a whole expected to recover strongly in 2012. The growth momentum is expected to continue in the medium term.

African economies might, however, be affected by the EU debt crisis and any subsequent deterioration in the global economic environment on several fronts, particularly through trade and capital flows. Africa is nevertheless poised to weather such risks and uncertainties. For more than a decade, the continent has deepened domestic sources of growth, and has strengthened both intra-trade and trade with faster growing economies in Asia and Latin America – away from Europe. This would help Africa mitigate the growth impact of a possible decline in trade with, and capital inflows from, the euro area.

Despite the acceleration of economic growth in Africa over the past decade, however, Africans' welfare has generally failed to improve. Social indicators have picked up only modestly, but with unemployment, particularly among youth, remaining stubbornly high, while income inequalities have widened. This disconnect between growth and social welfare requires policy actions on many fronts, including a focus on accelerating economic transformation in the key sectors that hold the greatest potential for jobs—such as agriculture, services and manufacturing.

This chapter, after discussing the trends and sources of Africa's recent economic performance, reviews developments in the continent's international trade and the impact of growth on poverty. It then presents recent social developments and discusses why economic growth has not been associated with commensurate progress towards the MDGs. It ends by looking at Africa's growth prospects for 2012.

Despite accelerated growth in Africa over the past decade, progress in social development remains slow.

2.1 Economic performance in 2011

Weakened recovery amid social and political unrest

PRIMARILY BECAUSE OF political unrest in North Africa and the continued slump in the developed economies, Africa's economic growth fell by nearly half in 2011, to 2.7 per cent from 4.6 per cent in 2010 (figure 2.1). This rate was far lower than seen before the global crisis.

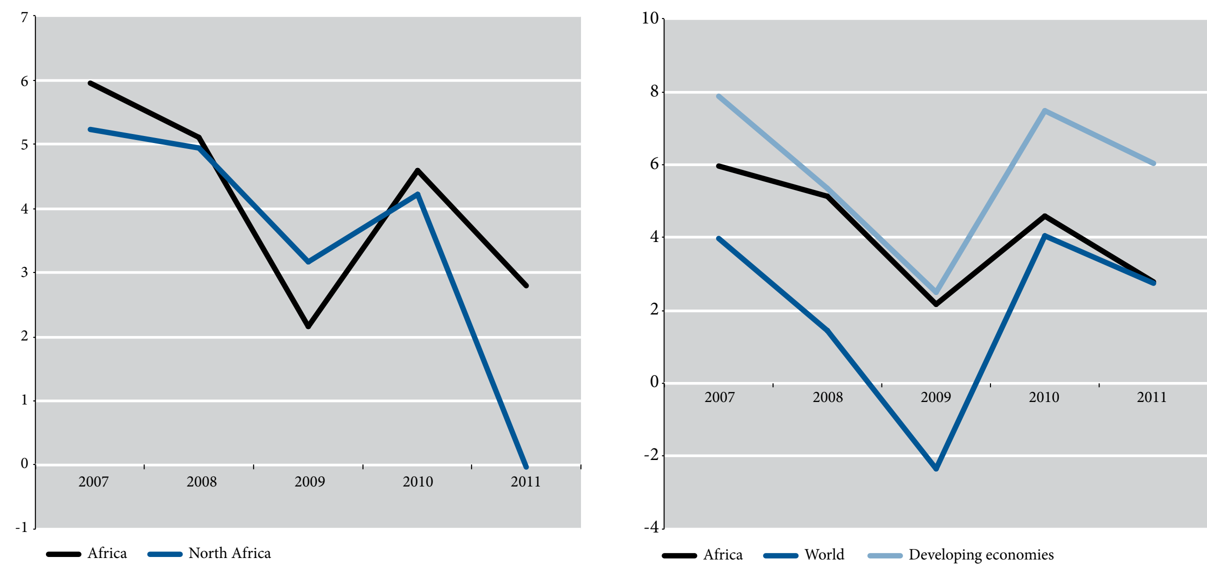
The intensity and persistence of the social and political turmoil in North Africa increased investor risk aversion sharply, prompting capital inflows to reverse and private investment to decline. Production and exports of oil—the mainstays of North Africa—were also disrupted (notably in Libya), and tourism collapsed (IMF, 2011a). North Africa recorded zero growth in 2011, down from 4.2 per cent in 2010, as the Libya contracted by 22 per cent and Tunisia by 0.6 per cent.

Figure 2.1

Africa's economic growth, 2007–2012 (change in real GDP, %)

North Africa dragged down Africa's growth

A slowdown in sync with global trends, but below the developing country average



__Source:__ UNECA calculations, based on UN-DESA (2011a).

Still an optimistic picture

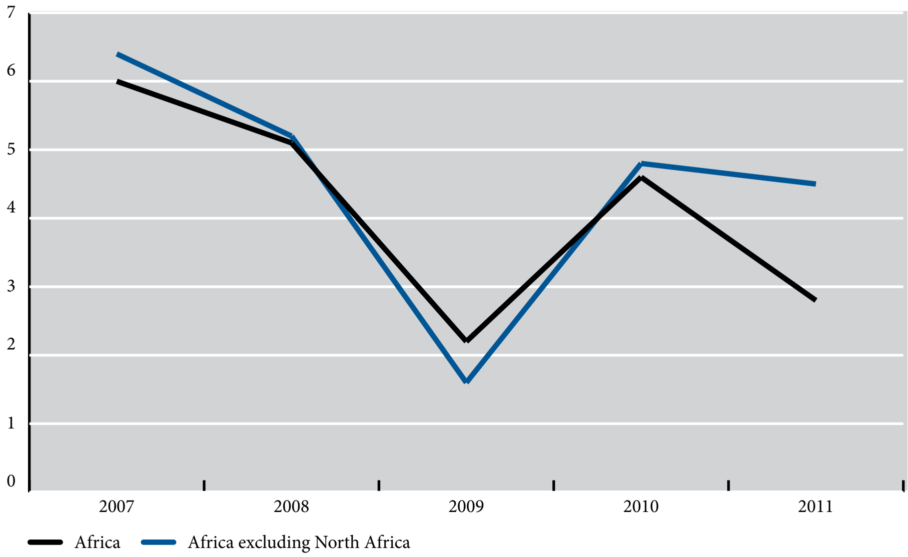
Outside North Africa, growth was solid at 4.5 per cent in 2011 (figure 2.2), reinforcing the recovery of 4.8 per cent in 2010. Per capita GDP increased by 2.2 per cent outside North Africa, similar to the growth rate of 2.5 per cent in 2010 (table 2.1). Real income per capita rose by 4.7 per cent in 2011.

Growth continues to depend on commodity exports as one of its key drivers.

Growth was largely driven by increased receipts from commodity exports, stemming from higher prices on international markets (see figure 1.4) and rising demand for commodities, particularly from emerging markets in Asia (IMF, 2011b). Improved terms of trade and higher returns from commodity exports allowed many of Africa's resource exporters to build much-needed buffers in foreign exchange reserves. Several countries also continued to diversify their export production by building local capacity in processing and value addition, helping them to capture new markets for high-valued products in the fast-growing emerging markets of East Asia and Latin America (IMF, 2011b).

Figure 2.2

Africa's economic growth, 2007–2011 (change in real GDP, %)



Source: *UNECA calculations, based on UN-DESA (2011a).*

Table 2.1

Economic growth in Africa by country group, 2009–2011 (%)

	Real GDP growth			Real per capita GDP growth		
	2009	2010	2011	2009	2010	2011
Africa	2.2	4.6	2.7	0.0	2.4	0.7
Africa excluding North Africa	1.6	4.8	4.5	–0.7	2.5	2.2
North Africa	3.2	4.2	0.0	1.4	2.4	–1.5
West Africa	4.6	6.9	5.6	2.0	4.3	3.1
Central Africa	1.8	5.2	4.2	–0.8	2.6	1.8
East Africa	3.8	5.8	5.8	1.2	3.1	3.2
Southern Africa	-0.8	3.2	3.5	–2.5	1.6	1.7
Oil-exporting countries	3.3	5.1	1.5	1.2	3.0	–0.5
Oil-importing countries	0.9	4.0	4.2	–1.2	1.8	2.1
Mineral-rich countries	–0.5	3.8	4.1	–2.7	1.6	1.8
Non-mineral, non-oil countries	4.1	4.5	4.5	1.7	2.1	2.3

Source: *UNECA calculations, based on UN-DESA (2011a and 2011b).*

Note: *Real per capita GDP is weighted by population for each country.*

Higher commodity prices have benefited commodity-exporting African countries, but rising food and energy prices have hurt countries that are not commodity exporters.

As in previous years, domestic demand supported growth in many countries, and is becoming as important as the export market in some countries. This growth in domestic demand stems from greater public spending on major infrastructure projects, which has also helped boost Africa's productive capacity, particularly in agriculture and extractive industries. Growth also benefited from increased FDI inflows, in response to an improved economic management and business climate. And with rising incomes and urbanization, the domestic consumer market is growing, becoming an important source of growth.

Commodity prices impacted African economies differently

Higher commodity prices have benefited commodity-exporting African countries, but—rising food and energy prices especially—have hurt African countries that are not commodity exporters, with heavy impacts on their balance of payments. Steeper food and fuel prices have hit hard low-income households (especially the urban poor), exacerbating social tensions and sparking food riots in some countries.

Severe drought in parts of the continent—Chad, Niger and countries in the Horn of Africa (notably Somalia) — devastating agricultural output there, leading to famine among rural poor households.

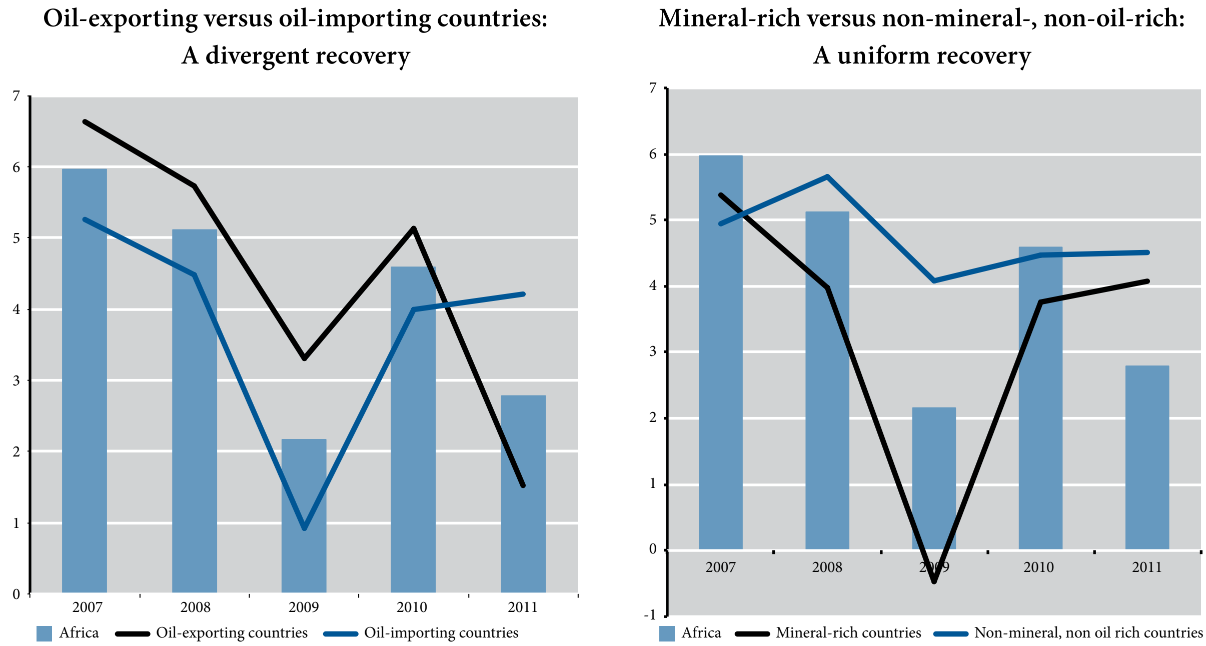
Varied economic performance

As in previous years, growth in 2011 was highly uneven among countries and groupings (figures 2.3 and 2.4 and see table 2.1). For the first time in five years, growth of the continent's oil exporters lagged behind that of oil importers. Growth in the former group decelerated from 5.1 per cent in 2010 to 1.5 per cent in 2011, despite large windfall oil-export gains from rising global oil prices (figure 2.3). The slowdown stemmed from political instability in oil-rich North African countries, particularly in Libya.

Economic growth in the oil-importing countries picked up, helped by solid domestic demand, a boom in public infrastructure spending and increased agricultural production. Growth rose to 4.2 per cent in 2011 from 4.0 per cent in 2010, consolidating the recovery from the slump induced by the global financial crisis.

Figure 2.3

Growth performance by country group, 2007–2011 (change in real GDP, %)



Source: *UNECA calculations, based on UN-DESA (2011a) and EIU (2011).*

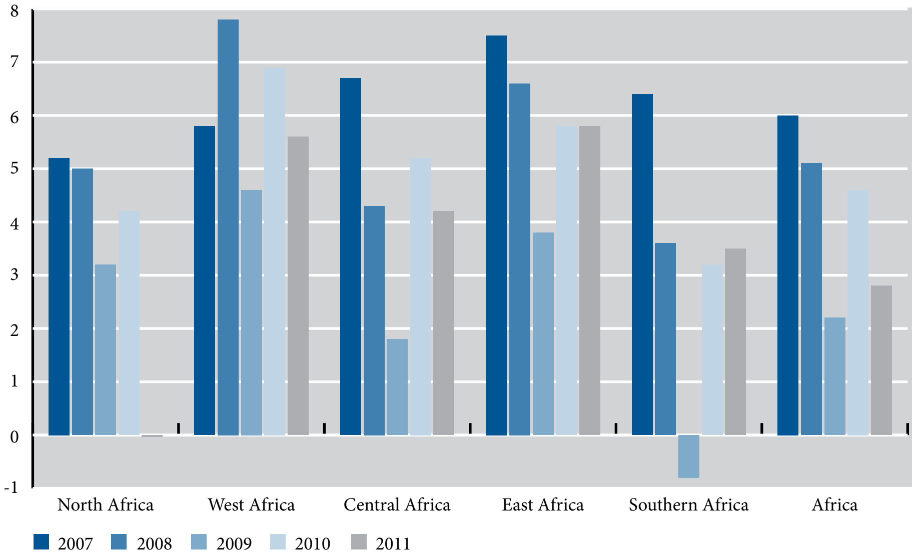
By subregion, growth also showed dissimilarities (figure 2.4). In *East Africa*, most countries maintained their faster growth trajectory despite experiencing severe drought and famine. The subregion registered 5.8 per cent growth in 2011, close to the 6 per cent of 2010. The higher growth was mainly due to Eritrea (17.2 per cent), Ethiopia (7.4 per cent), Rwanda (7.2 per cent), Tanzania (6.4 per cent), Uganda (5.6 per cent) and Djibouti (4.6 per cent). In most of these countries, faster economic activity benefited from sustained public investment in infrastructure (Ethiopia and Tanzania), rising mining output (Tanzania), strengthening FDI in energy (Uganda) and higher agricultural output (Ethiopia).

In *West Africa*, conversely, economic activity moderated in 2011, affected by contraction in Côte d'Ivoire. Subregional growth fell to 5.6 per cent from 6.9 per cent, weighed down by that country's 0.4 per cent contraction, due to post-election violence and a collapse of exports and the financial sector. Lower oil production by Nigeria also contributed. These factors were, however, largely counterbalanced by faster growth in Ghana (12.2 per cent), boosted by the resumption of commercial oil exploitation. Agriculture, mining and services also grew strongly in 2011.

Central Africa's economic activity remained fairly robust, although output declined from 5.2 per cent in 2010 to 4.2 per cent in 2011. Growth was underpinned by a combination of large public investment in infrastructure, strong performance of services, and increased timber exports. The overall performance covered a lacklustre performance by Chad, which saw a decline in oil production due to labour disputes in the oil sector, and a decline in remittances when many Chadians working in Libya lost their jobs at the outbreak of conflict.

Figure 2.4

Growth in Africa, 2007–2011 (change in real GDP, %)



Source: *UNECA calculations, based on UN-DESA (2011a) and EIU (2011).*

In *Southern Africa*, overall output expanded by 3.8 per cent in 2011, up from 3.5 per cent in 2010, with considerable variations in the subregion. South Africa, whose greater integration with global markets makes it more vulnerable to external shocks, recovered rather slowly, growing by only 3.1 per cent in 2011 from 2.8 per cent in 2010. Its growth was lifted by recovery of consumer spending, in turn fuelled by cheap credit and low inflation. Prospects for a speedy recovery of private investment and consumer spending were undermined by slow global growth, while concerns of persistent unemployment reduced fiscal space as the government sought to raise the labour intensity of economic growth through a stimulus package.

> *Continental growth has rarely translated into strong jobs growth and unemployment rates remain high, especially among the youth.*

Many other countries achieved solid growth. Botswana, Mozambique and Zambia had growth of above 6 per cent, reflecting rising mining output and strong global demand for minerals (as well as a bumper harvest in Zambia). Growth in Angola and Zimbabwe surpassed 4.0 per cent, driven by increased oil output and investment (Angola) and by an improved political and economic climate (Zimbabwe). Only Swaziland bucked the trend somewhat: its output expanded by only 2.5 per cent in 2011, up from 2.0 per cent in 2010, on account of severe cutbacks in private and public spending in response to a deep fiscal crisis.

North Africa performed poorly as economic activity suffered from political and social strife that erupted in most countries. Output was flat in 2011, after expansion of 4.2 per cent in 2010. Libya led the contraction, with economic activity collapsing by 22 per cent, following disruptions to production of oil and exports of hydrocarbons. Egypt's growth fell sharply to 1.3 per cent from 5.1 per cent in 2010, and Tunisia's output contracted by 0.3 per cent. Disruptions to tourism—a major source of foreign exchange and employment—were heavy in those two countries.

Not enough jobs created, but quality of growth has improved

Continental growth has too rarely translated into strong jobs growth. High levels of unemployment, particularly among youth, remain. North Africa seems the most affected, with unemployment estimated at 9.8 per cent in 2011, versus 7.9 per cent for the rest of Africa (ILO, 2011). These figures understate the severity of the jobs crisis, however: women face twice the unemployment rate of men (15 per cent versus 7.8 per cent). Moreover, of those employed, the vast majority are in vulnerable work, mostly in low-productive informal activities. The poor productivity of these micro-enterprises undermines their ability to generate decent jobs and reduce underemployment.

The failure of economies to generate adequate employment is partly because recent growth has been driven by the capital-intensive extractive industries (mining and oil exploration). These activities also have limited forward and backward linkages with the rest of the economy. African countries therefore need to diversify their sources of growth towards developing pro-poor sectors if they are to make inroads into reducing high unemployment and poverty rates.

Nevertheless, evidence from household surveys indicates that the average living standards of relatively poor households in some of the fast-growing economies have risen strongly since the beginning of 2000 (IMF, 2011b). The poorest 25 per cent of households have fared best in countries where output grew the fastest. This welfare improvement is explained in large measure by cross-country differences in the pace and extent of growth in agricultural employment, which in turn has helped to lift household consumption among the poor. This evidence points to the importance of investing in agricultural productivity.

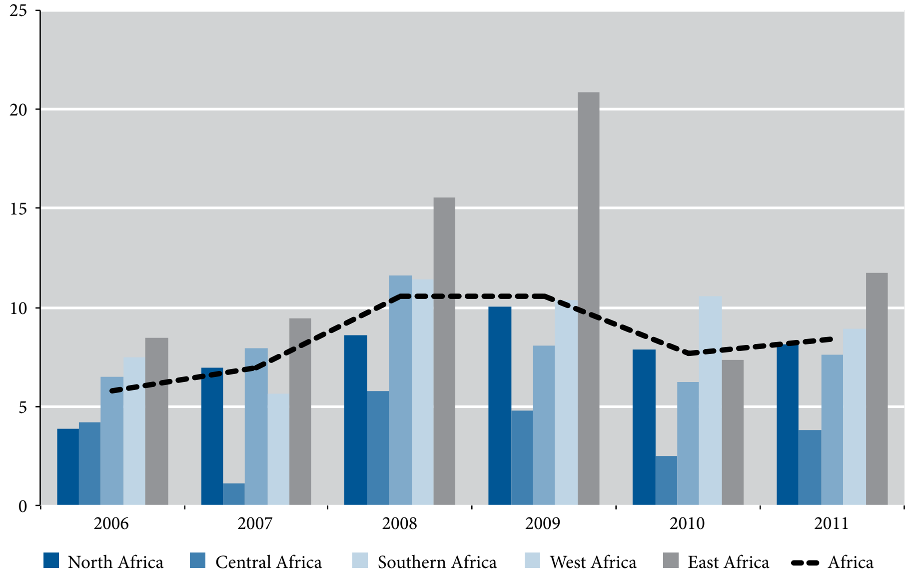
Inflationary pressure increased in Africa

Inflation rose across most of the continent in 2011, sparked initially by higher food and fuel prices. Continent-wide, consumer price inflation rose to 8.4 per cent in 2011, from 7.7 per cent in 2010 (figure 2.5). In the Horn of Africa, severe drought contributed to much sharper increases in inflation, mainly for food. In Ethiopia, for example, inflation rose to nearly 40 per cent, and in Guinea and Uganda, about 20 per cent. Non-food inflation also picked up in some countries: about 10 had non-food inflation above 10 per cent, including Ethiopia, Uganda, and Guinea (IMF, 2011b). In other countries, such as Ghana, Malawi, Rwanda and Zambia, good harvests kept food inflation low, and overall inflation stayed in single digits.

Promoting pro-poor growth is essential for African countries to reduce high unemployment and poverty rates.

Figure 2.5

Trends in African inflation, 2006–2011 (annual change in consumer price index, %)



Source: *UNECA calculations, based on IMF (2011c) for 2006-2010 and estimates for 2011.*

Economic policy shifted to neutral—but still accommodative

Monetary policy in most African countries was largely supportive of growth. It turned from accommodative to neutral in 2011, as central banks faced the difficult task of containing imported inflation while bolstering recovery. A gradual tightening occurred in only a handful of countries, and, even then, not decisively. In most cases, policy instruments (such as interest rates) were kept unchanged from the levels to which they were lowered during the global crisis.

Fiscal policy remained supportive in 2011, as most countries sought to stimulate growth by raising spending on infrastructure and social protection programmes.

The two central banks in the CFA zone,[1] for example, maintained low interest rates in 2011 despite the European Central Bank's actions towards policy tightening earlier in the year. Similarly, the South African Reserve Bank kept its policy interest rate low for most of 2011. Notable exceptions were Nigeria and countries in the East African region (Kenya, Rwanda and Uganda) where policy rates were raised several times to curb inflationary pressures. For 2012, East African monetary authorities have decided to keep policy tight to curb lingering inflationary pressures.

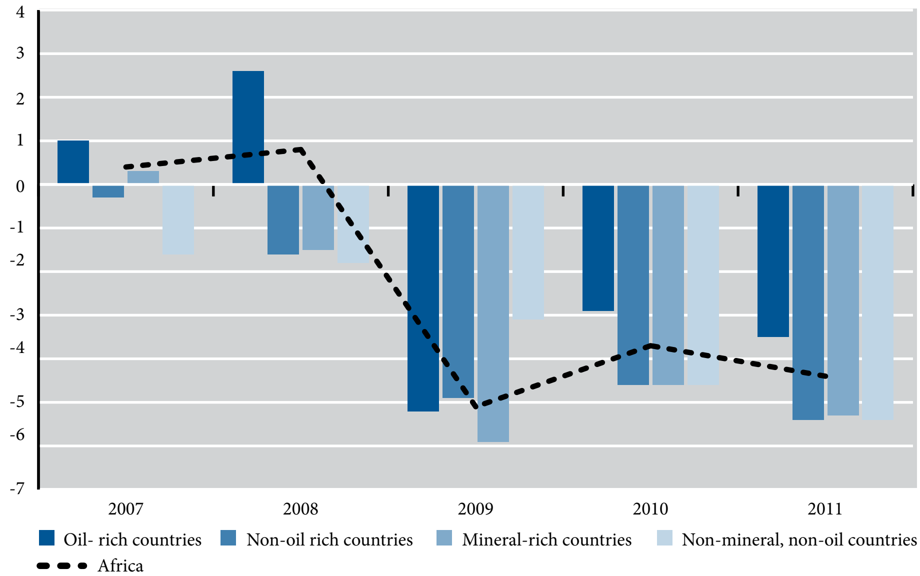
It is too early to tell whether tight monetary policy is the best instrument to curb inflation and stimulate growth. Many countries are most likely to keep monetary policy accommodative because a solid global recovery is unlikely to materialize soon—and will not until the euro area sovereign debt crisis is definitively resolved.

Fiscal policy also remained supportive in 2011, as most countries sought to stimulate growth by raising spending on infrastructure and social protection programmes—such as through price subsidies and service delivery—to protect the poor from the economic crisis. Elections in some 20 countries also stimulated public spending in

2011. As a result, Africa's aggregate fiscal deficit widened to 4.4 per cent of GDP in 2011, from 3.7 per cent in 2010 (figure 2.6). In North Africa, some increases in public spending were directed at promoting social stability through price subsidies.

Figure 2.6

Africa's fiscal balances, 2007–2011 (% of GDP)



Source: *UNECA calculations, based on EIU (2011) and IMF (2011c).*

Largely benign external positions

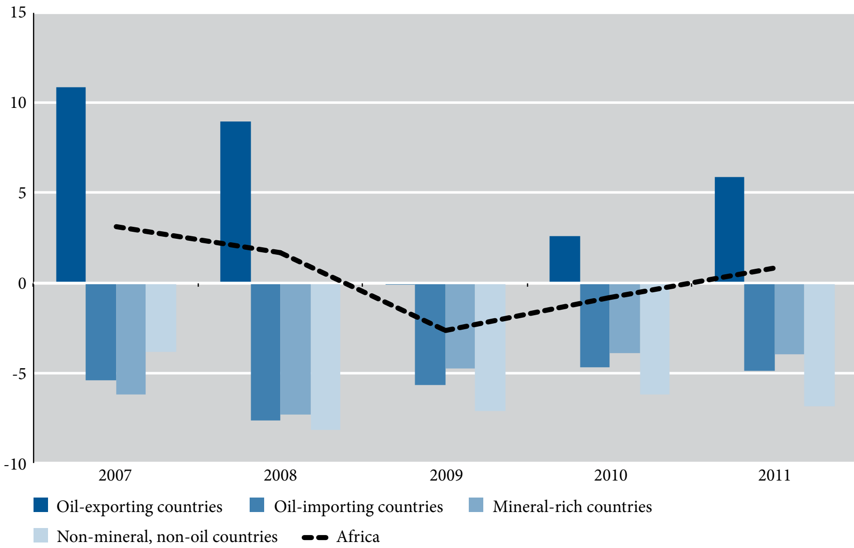
Africa's aggregate external balance improved slightly in 2011, on the back of growing shipments from commodity exporters (figure 2.7). The current account balance turned to a small surplus (0.8 per cent of GDP), from an equally small deficit in 2010. Within country groups, however, the outcomes remained diverse, notably between oil-exporting and oil-importing countries. External surpluses increased in most oil and mineral exporters, while the current account deficits of oil-importing countries widened. The improvement in the current account balances of exporting countries enabled them to build foreign exchange reserve buffers and reduce their reliance on ODA as a source of current account financing, although ODA remained important to several countries with larger deficits.

ODA flows to Africa remained stagnant in 2011, partly because of pessimistic growth prospects and fiscal difficulties among many donor countries. Humanitarian assistance flows also declined, before rising in the latter part of 2011, in response to the severe drought and famine in the Horn of Africa. Debt relief flows, by contrast, continued to rise in 2011.

ODA flows to Africa stagnated in 2011 because of pessimistic growth prospects and fiscal difficulties in many donor countries.

Figure 2.7

Current account balances in Africa, 2007–2011 (% of GDP)



Source: *UNECA calculations, based on IMF (2011c).*

FDI inflows into Africa are estimated at $52.4 billion in 2011, close to the 2010 level. In 2012, they are projected to reach $55 billion (EIU, 2011).[2] Although the bulk of FDI still went to the extractive industries, there is evidence that it is becoming more diversified (AfDB, OECD, UNDP and UNECA, 2011), by source and destination. Portfolio inflows were generally weak, however, pacing the decline of African stock markets (25 per cent in the first half of 2011) because of the political transition in Egypt and Tunisia, which house two of the largest stock markets in Africa.

Despite sustained increases in capital inflows over the last decade, Africa's domestic resource gap and financing needs for achieving the MDGs by 2015 appear as high today as they were estimated in the late 1990s (Chapter 5 discusses constraints to Africa's development financing and ways to tackle them.)

2.2 Recent trends in international and intra-African trade

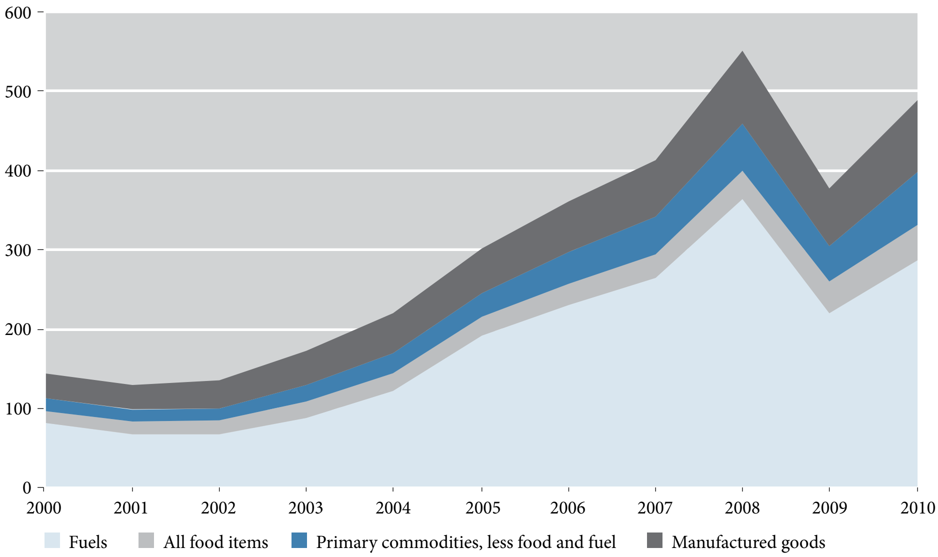
Shifting patterns of international trade

TRADE IS INCREASINGLY an engine of growth and Africa has continued to expand strongly since the global crisis. After a large contraction in 2009, African exports rebounded by 25 per cent in dollar terms in 2010, outstripping world export growth of 21 per cent. Africa's imports increased by 15.6 per cent in 2010, allowing the continent to return to a modest merchandise trade surplus of $5 billion. Africa's share of global trade increased marginally to 3.2 per cent (to be seen against its 2.6 per cent of global output and 14.8 per cent of the world's population).

Given the continuing dominance of primary commodities—fuels in particular—in Africa's export composition (figure 2.8), export fortunes mirror the international commodity price trends described in chapter 1. To illustrate: the value of African exports fell by 31 per cent in 2009 and grew by 25 per cent in 2010—but in volume terms, these figures equate to only 11 per cent and 9 per cent of exports in these two years. In other words, price accounts for almost two thirds of the growth or contraction in the value of trade.[3] The high receipts from the export of fuels are then used to finance Africa's import of manufactured goods (figure 2.9). This imbalance in the trade pattern underscores the case for building productive capacities for structural transformation.

Figure 2.8

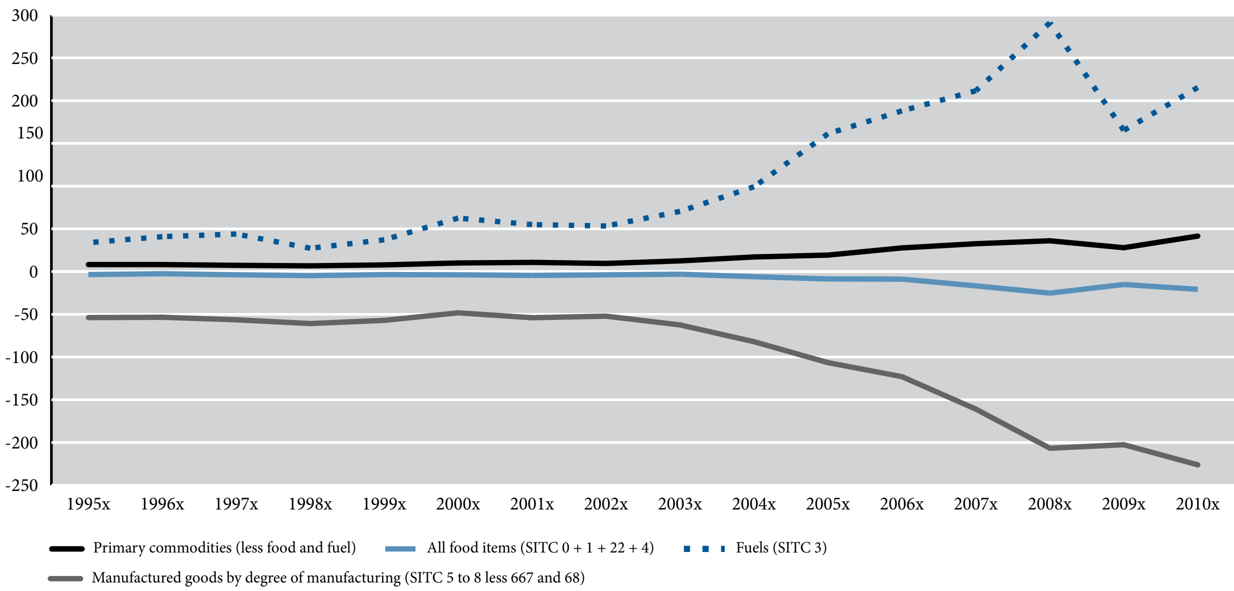
African exports by broad category, 2000–2010 (current $ billion)



Source: *UNCTAD (2011), accessed 19 October 2011.*

Figure 2.9

African merchandise trade balance by broad category (current $ billion)



Source: *UNCTAD (2011), accessed 19 October 2011.*

The lacklustre response of imports relative to exports can be attributed to less pent-up demand in Africa than in the regions most hit by the global crisis (WTO, 2011)—import contraction in 2009 in Africa was less than elsewhere, because African exports have a low import content, implying that increased imports may not necessarily require a matching expansion in exports. On a positive note, the lack of integrated production networks in Africa means that trade is more resilient to crisis than in more integrated regions.

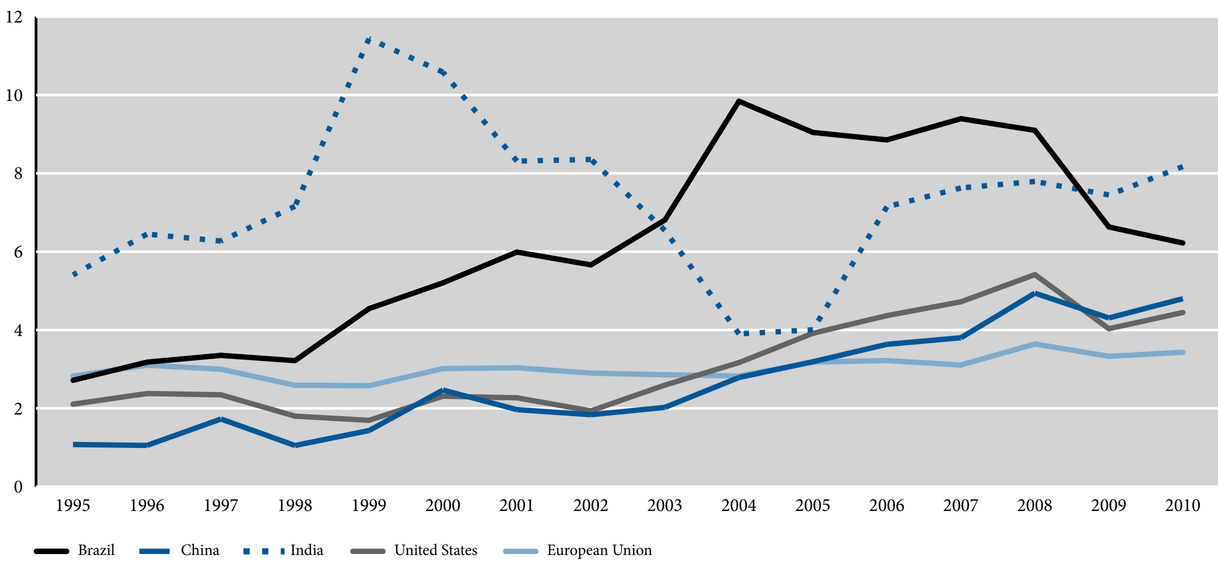
Intra-Africa trade is disappointingly low, at around 11 per cent of Africa's total trade in 2010.

Africa is increasingly diversifying trading relationships towards emerging economic powers (figure 2.10). For example, China and India now consume 12.5 per cent and 4 per cent of Africa's exports—representing 5 per cent and 8 per cent of these countries' imports. Africa's engagement with China has in particular been fruitful. The share of Chinese mineral and fuel imports from Africa grew from less than 5 per cent in 1995 to almost 25 per cent in 2010. African exports of high-valued products to the Group of Five (Indonesia, Malaysia, Saudi Arabia, Thailand, and United Arab Emirates) have also been growing.

Yet to capture more of the Asian market, African countries need to step up their expansion of their manufacturing base and engender productivity gains (IMF, 2011a). With uncertainty surrounding demand from Europe and the US, Africa would gain from diversifying its trading relations. In the medium term, however, traditional trading partners in the developed world will remain important, and a strategic approach is needed to explore new and lucrative niches for African products in Europe.

Figure 2.10

Africa's share of selected import markets, 1995–2010 (%)



Source: *UNCTAD (2011), accessed 26 October 2011.*

Africa's service trade has been growing consistently with global trends, indicating its increasing potential. Travel and tourism account for 50 per cent of Africa's service exports. Despite the disruptions to services in North Africa in 2010 and 2011, sub-Saharan Africa continued to exploit its comparative advantage in tourism, recording a 13 per cent increase in 2010, for example. South Africa boosted its travel receipts by 24 per cent owing to the large number of foreign visitors attending the FIFA World Cup (WTO, 2011). In other sectors, Kenya and Ghana in particular have benefited from exports of business-processing services, taking advantage of improved infrastructure for information and communication technology (ICT) and reasonably well-educated and urbanized workforces (IMF, 2011b).

In global trade, developing countries' average most-favoured-nation applied tariff rates came down to 9.9 per cent in 2009 (world: 8.6 per cent), from 10.5 per cent in 2008 (world: 9.3 per cent) (World Bank, 2010). Yet some

G-20 countries put through modest import controls in 2009 although the World Trade Organization (WTO) recorded no new trade barriers in 2010 (WTO, 2011). Since the G-20 Seoul Summit in November 2010, however, almost 200 protectionist measures have been brought in, with G-20 governments accounting for 80 per cent and the four BRIC countries for one third (Evenett, 2011).[4] Market-closing instruments outweigh market-opening measures by far, though direct border controls are progressively being lowered.

The optimistic proclamations on the prospects for concluding the Doha Round (or an early harvest for LDCs) made in 2010 were not matched by concrete progress in 2011 such that the December Ministerial Meeting in Geneva was limited in scope to exploring the way forward, rather than substantive negotiations. The appropriate balance between emerging and advanced economies commitments remains undecided, and while there is consensus that fresh and credible approaches are required, 2011 ended without any agreement as to their form.

Africa's regional economic communities (RECs) are strengthening intra-REC transport infrastructure.

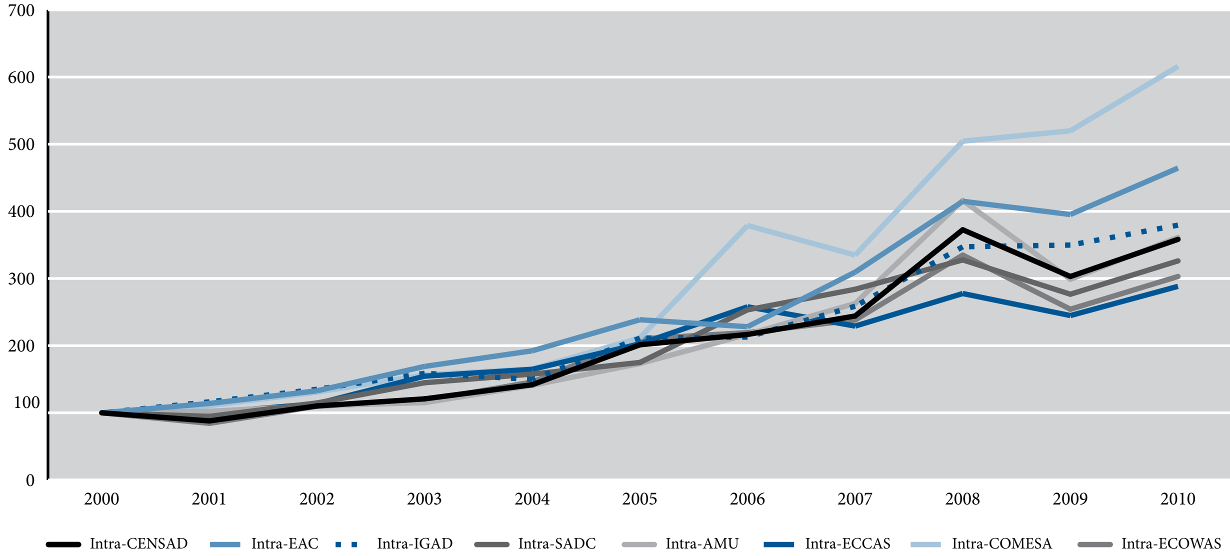
With respect to Economic Partnership Agreements, the European Commission announced in September 2011 that those countries that have concluded an EPA with the EU but have not taken the necessary steps toward ratification by January 2014 will be withdrawn from the Market Access Regulation (that which permits DFQF access to the EU).[5] The intention is to ensure fairness between those that have implemented their EPA commitments and those which are yet to do so, but many contentious issues remains outstanding. The next 12 months will be instrumental in shaping EU-Africa trading relations, and if the EPA process continues to falter it may catalyse further rebalancing toward South-South avenues of cooperation.

The promise of intra-African trade hindered by high protection

Intra-African trade is disappointingly low, at some 11 per cent of Africa's total trade in 2010. This is despite the myriad opportunities for intra-African trade, as demonstrated by a six-fold increase in trade within the Common Market for Eastern and Southern Africa (COMESA) over the past decade (figure 2.11). The East African Community (EAC) has also enjoyed success in recent years in diversifying production and moving up the value chain, and in enhancing resilience to economic crisis. Firms in Rwanda and Uganda have succeeded in capturing much of the value chain for coffee exports, selling branded coffee directly to the US. Kenya has expanded its presence in telecommunications and tourism—driven by a good infrastructure base, an active government and low levels of initial export concentration (OECD and OSAA, 2010; WEF, 2011). Conversely, homogeneity of exports and poor transport infrastructure hinder trade integration in the Economic Community of Central African States (ECCAS).

Figure 2.11

Indices of export values within African regional economic communities (2000=100)



Source: *UNECA calculations, based on UNCTAD (2011), accessed 19 October 2011.*

Note: *Eight Regional Economic Communities (RECs) are recognized by the African Union, namely: the Community of Sahel-Saharan States (CENSAD), the East African Community (EAC), the Intergovernmental Authority on Development (IGAD), the Southern African Development Community (SADC), the Arab Maghreb Union (AMU), the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA), and the Economic Community Of West African States (ECOWAS).*

Estimates of export sophistication in Africa are generally low, which inhibits countries from capturing future growth (Spence and Karingi, 2011), although goods traded within Africa—from Ghana and Kenya, for example—are more sophisticated than those traded with the rest of the world (table 2.2). This evidence of a mutually reinforcing relationship between regional integration and export sophistication further boosts the case for expanding intra-African trade as a tool towards realizing Africa's global growth pole ambitions.

Table 2.2

Top five exports by value to Africa and the rest of the world, 2008

Ghana to the world	Ghana to Africa
Gold, semi-manufactured forms	Gold, semi-manufactured forms
Cocoa beans, whole or broken, raw or roasted	Machinery parts, non-electrical
Cashew nuts, fresh or dried	Plywood, all softwood
Gold in unwrought forms	Panels, laminated woods
Lumber, non-coniferous	Aluminium alloy plate, sheet, strips
Kenya to the world	**Kenya to Africa**
Tea, black in packages	Tea, black in packages
Cut flowers and flower buds, fresh	Oils petroleum, bituminous, distillates
Vegetables, fresh or chilled	Portland cement, other than white cement
Cut flowers and flower buds, dried	Cigarettes containing tobacco
Coffee, not roasted, not decaffeinated	Medicaments, in dosage

Source: *United Nations (2011a).*

Yet, if Africa is to expand its internal trade, it will have to reduce or remove tariffs: intra-African average applied protection remains high at 8.7 per cent.[6] The establishment of a Pan-African Free Trade Area, as agreed by the African Ministers of Trade in Kigali in November 2010, would remove tariffs on internally traded goods and services. When that Free Trade Area (FTA) becomes a reality, the share of intra-African trade would undoubtedly increase. A recent estimate by UNECA, based on Computable General Equilibrium (CGE) modelling of a continental FTA, concludes that the share of intra-African trade would increase from 11 to 15.4 per cent of total trade by 2022 with the removal of all internal tariffs on goods by 2017 (UNECA, AUC, AfDB and UNDP, forthcoming). The gains in industrial goods outstrip those for agricultural products, indicating that the expansion of intra-African trade though a continental FTA can drive structural transformation.

As assumed by the CGE analysis if, beyond these FTA tariff-elimination measures, customs procedures and port handling are made twice as efficient, intra-African trade would double to 21.8 per cent with a continental FTA. At present, the cost of exporting or importing a standardized cargo of a 20-feet container of goods in sub-Saharan Africa is about $2,000, twice the amount in other regions of the world (World Bank, 2011).

Matters have been improving in recent years, however. According to the World Bank Doing Business Report (2012), sub-Saharan Africa even registered a record number of regulatory reforms implemented between June 2010 and May 2011, which aimed, inter alia, to ease trading across borders. Single-window border posts, where traders can file all paperwork for trading in one place, have slashed clearance times. (The African Alliance for e-Commerce provides a platform for sharing experience on these posts.)

Africa's regional economic communities (RECs) are strengthening intra-REC transport infrastructure. The Arab Maghreb Union, for example, is committed to completing the Trans-Saharan and Maghrebian Highways.

Access to high-quality education is vital for strengthening the productivity of the labour force and accelerating economic growth.

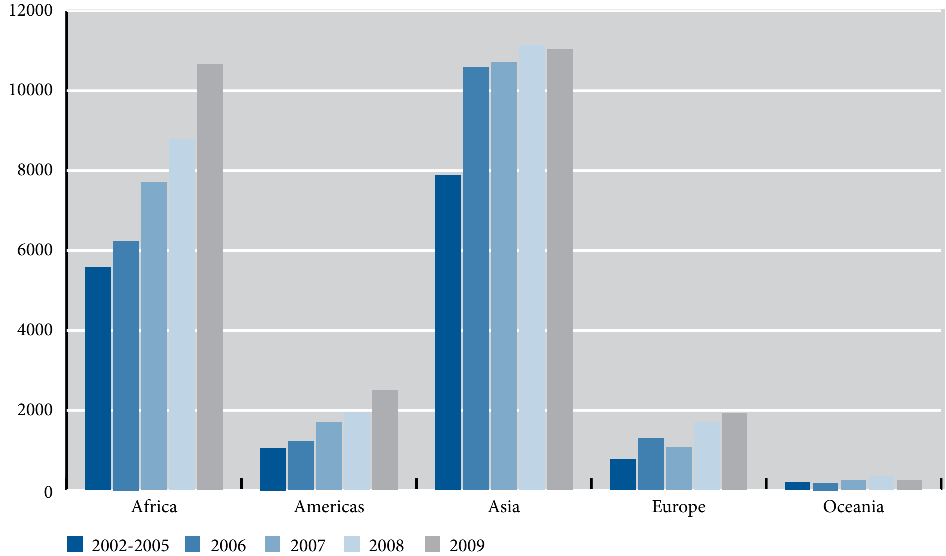
Other RECs are promoting regional linkages through initiatives such as the Southern African Development Community (SADC) Multi-country Agricultural Productivity Programme and the Alliance for Common Trade in Eastern and Southern Africa, which focuses on disseminating technologies and building regional networks. Issues to be resolved include easing the movement of people—although the EAC and Economic Community of West African States (ECOWAS) common passports are welcome developments—and strengthening trade finance, which the African Development Bank's $1 billion Trade Finance Initiative in 2009 helped to address (AfDB, 2010).

Aid for Trade is another initiative to promote intra-African trade. Recent research confirms that the initiative helps to increase trade (Helble, Mann and Wilson, 2009), and significantly reduces trade costs in developing countries (Busse, Hoekstra and Koeniger, 2011). However, Busse, Hoekstra and Koeniger (2011) also show that Aid for Trade flows need to be large enough to lower trade costs in the case of LDCs. In Africa, Aid for Trade contributes to diversifying exports and to improving trade competitiveness (Karingi and Leyaro, 2009).

Aid for Trade to Africa increased by 21.2 per cent in 2009 (figure 2.12), continuing its eight-year uptrend, and was the most stable source of trade policy reform in Africa among developing regions. About 37 per cent of total Aid for Trade disbursements (41 per cent of commitments) were destined for Africa in 2009.[7] Variation among African countries was considerable.

Figure 2.12

Aid for Trade flows by region, 2002–2009 ($ million, constant prices)



Source: *OECD (2011), accessed 26 October 2011.*

2.3 Recent trends in social and human development

TRENDS IN SOCIAL and human development are generally positive, though uneven, among African countries, but are too slow to achieve internationally agreed development goals, particularly the MDGs. The continent has made good progress in increasing primary enrolment (including gender equality), reducing the prevalence of HIV/AIDS and cutting the under-five mortality rate. But progress on health indicators has generally been lacklustre; sanitation has improved only marginally and poverty rates are unlikely to be halved by 2015 (from 2000) in many countries. Nevertheless, the advances in a global context of economic slowdown demonstrate Africa's resilience and commitment towards improving its people's welfare.

Primary school enrolment on the rise but educational quality still a concern

Access to high-quality education is vital for strengthening the productivity of the labour force and accelerating economic growth, and Africa has made good progress in accelerating education enrolment for girls as well as boys, particularly at the primary level. By 2011, most African countries have achieved gender parity in primary schools, and in Malawi, Rwanda, Senegal and Togo, for example, girls outnumber boys.

> *Africa's economic growth has not yielded commensurate dividends in poverty reduction.*

Of the 36 African countries with data for 2008/09, 16 have achieved net primary school enrolment ratios of more than 90 per cent. The rate of increase has been excellent: between 1999 and 2009, primary enrolment rose by 18 percentage points in Central, East, Southern and West Africa, compared with 12 percentage points in South Asia. Benin, Burkina Faso and Mozambique lifted net enrolment by 25 percentage points between 1999 and 2009 (United

Nations, 2011b), and Ethiopia from 50 per cent in 1990 to 86.5 per cent in 2010 (UNECA and AUC, 2011).

Primary completion rates, however, are still too low, partly because of the poor quality of education, and it seems that investments in educational facilities and qualified teachers have lagged behind efforts to increase enrolment. Secondary and tertiary enrolment rates need to improve.

Women's empowerment slowly gaining traction

Women are increasingly taking centre stage in Africa's development process. Sub-Saharan Africa in the last decade saw the largest increase in the representation of women in parliament, a figure that rose from 13 per cent in 2000 to 20 per cent in 2011. Eighty per cent of African countries (with data) increased that proportion between 1990 and 2010. The top three performers in 2010 were Rwanda (56 per cent), South Africa (45 per cent) and Mozambique (39 per cent) (UNECA et al., 2011). Rwanda is especially impressive, and stands as an inspiration to other African countries: women constitute 38 per cent of ministers, 35 per cent of senators, 56 per cent of deputies, 40 per cent of governors and 36 per cent of judges (Groupe Jeune Afrique, 2012).

In addition, the share of wage-earning women in non-agricultural sectors increased slightly from 24 per cent to 33 per cent between 1990 and 2009 (United Nations, 2011b).

Large steps in preventing new HIV/AIDS infections

Addressing the scourge of HIV/AIDs, malaria and other diseases that deprive the continent of its productive labour force is critical if Africa is to realize its growth potential. Although sub-Saharan Africa is the global region most heavily affected by HIV,[8] the rate of new infections has shown a notable decline, from 2.2 million in 2001 to 1.9 million in 2010. The epidemic remains most severe in Southern Africa, which accounted for almost half the deaths from AIDS-related illnesses in 2010; it is less prevalent in North Africa. Heightened awareness campaigns on behavioural change, and the promotion and use of condoms and antiretroviral treatment, have curbed the numbers of new infections and AIDS-related deaths.

Progress in malaria treatment

The estimated number of global malaria cases fell from 233 million in 2000 to 225 million in 2009 (ILO, 2010). Since 2000, 11 countries in Africa have shown steeper than half reductions in the number of confirmed malaria cases (and/or reported hospital admissions for malaria) and deaths (United Nations, 2011b).[9] Likely reasons include increased use of insecticide-treated bed nets, particularly in rural areas; improved diagnostic testing and surveillance; and wider access to anti-malaria drugs. Collectively, these measures have helped to save an estimated 1.1 million lives in Africa over the past 10 years. Yet malaria is still a leading cause of mortality and morbidity in Africa: of estimated global malaria deaths in 2011, 91 per cent were in Africa, and 86 per cent of this group were children under age 5 (WHO, 2011).

Child and maternal mortality improving but still too high

Africa has some of the world's highest under-five mortality rates and maternal mortality ratios, but has registered modest declines in recent years. Only two countries in Africa—Egypt and Tunisia—have achieved a two-thirds reduction in child mortality since 1990. Across sub-Saharan Africa, under-five mortality fell from 174 per 1,000 live births to 121 between 1990 and 2009. Better still, the average rate of reduction in under-five mortality rose from 1.2 per cent in 1990–2000 to 2.4 per cent in 2000–2010.

At 620 deaths per 100,000 live births in 2008, the maternal mortality ratio in sub-Saharan Africa is not only among the highest in the world but is declining very slowly relative to other global regions (WHO, 2011). Of the sub-Saharan countries with data for 2008, 24 registered a ratio of more than 500 deaths per 100,000 live births.[10] Progress has been faster in North Africa, which recorded a 69 per cent decline between 1990 and 2010, compared with a 1 per cent decline in the rest of Africa. North Africa's success was driven by a sharp increase in the number of deliveries attended by skilled health personnel (United Nations, 2011b).

Wide income inequality in Africa has contributed to Africa's weak growth-poverty elasticity.

In response to the burden of high maternal mortality, in 2009 African leaders launched the African Union (AU) Campaign on Accelerated Reduction of Maternal Mortality in Africa, which is under way in more than 34 countries. Its success will be vital in improving the health and life expectancy of pregnant women in Africa.

Growth's modest effects on reducing poverty

Africa's economic growth has not yielded commensurate dividends in poverty reduction. The proportion of people in Central, Eastern, Southern and Western Africa living on less than $1.25 a day declined in 1990–2005, but only from 58 per cent to 51 per cent. On recent and forecast growth trends, Africa is unlikely to halve the rate of extreme poverty by 2015 (United Nations, 2011b).

The limited impact of growth on poverty reduction in Africa stems from the narrow base of the sources of growth. As seen earlier and discussed further in chapters 3 and 4, Africa's growth is still largely driven by primary production and exports, the benefits of which accrue to small enclaves within the larger economy. Thus the growth–employment nexus in Africa is weak, leading to slow growth in remunerative job opportunities and intensifying vulnerable employment—all in all explaining the modest declines in poverty.

Indeed, recent global estimates show that sub-Saharan Africa has the lowest growth–poverty elasticity in the world (table 2.3): a 1 per cent increase in growth reduces poverty by only 1.6 per cent, but by 3.2 per cent in North Africa (and 4.2 per cent in Eastern Europe and Western Asia, which has the highest elasticity).

Table 2.3

Elasticity of poverty in relation to growth and inequality in Africa and some selected regions

Region/subregion	Growth	Inequality
East Asia and Pacific	–2.47	3.49
Eastern Europe and Western Asia	–4.22	6.85
Latin America and Caribbean	–3.08	5.00
Middle East and Central Asia	–2.75	3.91
South Asia	–2.10	2.68
Sub-Saharan Africa	–1.57	1.68
North Africa	–3.17	4.82
West Africa	–1.80	2.02
Central Africa	–1.35	1.31
East Africa	–1.40	1.32
Southern Africa	–1.65	2.18

Source: *Fosu (2011).*

Around three in every five workers in sub-Saharan Africa are poor. Although matters improved in 1999–2003, this ratio has been stagnant at 58 per cent since 2008. North Africa has also experienced a levelling in the share of working poor since 2008, albeit at better levels.

In total employment, the share of the working poor remained constant at around 16 per cent in 2008 and 2009 (table 2.4). The relatively high incidence of poor workers in Africa is linked to the precarious nature of their jobs—three in four workers are in vulnerable employment. And, despite a decline in such employment in 2000–2009 in sub-Saharan Africa (from 79.5 per cent to 75.8 per cent), the figures are still very high and represent a serious challenge for African governments.

Table 2.4

The working poor in Africa

	(million)				(% of total employment)			
	1999	2003	2008	2009	1999	2003	2008	2009
North Africa	10.5	11.1	10.5	10.7	21.4	20.2	16.2	16.1
Africa excluding North Africa	147.5	156.2	170.2	174.6	66.9	63.0	58.5	58.5

Source: *ILO (2011).*

High inequalities undermining poverty reduction efforts

Wide income inequality in Africa, the second-most unequal grouping after Latin America (World Bank, 2009), has contributed to Africa's weak growth–poverty elasticity. Inelasticities in poverty inequality are particularly high (4.8) in North Africa, suggesting that a unit increase in inequality increases poverty by almost 5 per cent (see table 2.3). Such inequality, coupled with the lack of pro-poor or inclusive economic growth, is reflected in large spatial and group disparities in access to and use of social services.

For example, in sub-Saharan Africa, an urban dweller is 1.8 times more likely to use an improved drinking water source than a rural dweller. Further, the poorest 20 per cent of the population in urban areas are almost six times more likely to rely on an unimproved drinking water source than the richest 20 per cent. In urban areas, the poorest households are 12 times less likely than the richest to have piped drinking water supply on the premises (UNECA, 2009).

Meeting the challenges

An integrated approach

Achieving the MDGs by 2015 will require an integrated approach that takes in the interrelatedness of social and human development. By focusing efforts on interventions that have the greatest knock-on effects on other social and human indicators, policymakers can leverage the developmental impact of scarce human and financial resources.

Empirical evidence of the linkage among such indicators is abundant. Several studies have demonstrated, for instance, the impact of female education on child mortality rates and under-nutrition (such as Summers, 1994; Murthi et al., 1995; and Drèze and Murthi, 2001). Using micro data, Summers (1994) reports that the under-five mortality rates for women with more than seven years of education are 80–120 per 100,000 lower than rates for women with no education.

Successful social protection programmes are well targeted, anchored by strong political support, effectively coordinated and not overly dependent on external funding.

Better female education also reduces child under-nutrition, which is closely linked to child mortality. Smith and Haddad (1999), for instance, show that a 1 percentage point increase in female secondary enrolment reduces the share of underweight children by 0.17 percentage points. Klasen and Lamanna (2003) generate similar findings for the impact of female literacy on child under-nutrition.

Equity in access through social protection

Fiscally sustainable social protection programmes that not only provide income support but strengthen the productive capacities of vulnerable groups can reduce income inequality while promoting inclusive growth.[11] Sub-Saharan Africa only spends 8.7 per cent of GDP on social services, the lowest of all the world's regions, and merely 5.6 per cent without public health spending. This low expenditure undoubtedly translates into poor provision of social services to neglected population groups. Some studies (such as ILO, 2010) have shown that countries with the highest investments in social security tend to exhibit low poverty rates and low labour market informality (box 2.1).

Box 2.1: Political consensus on social protection

The political commitment to social protection as a way to tackle inequitable progress towards the MDGs has found fertile ground at international and regional levels.

Internationally, recognizing the necessity of ensuring universal social protection, the United Nations System Chief Executives Board adopted in April 2009 a Universal Social Protection Floor (SPF-I) as one of nine initiatives to respond to the food, fuel, economic and financial crises.

The potential of social protection in reducing poverty and achieving the MDGs had been previously recognized by the African Union (AU), which made social protection a priority by adopting the Social Policy Framework for Africa at the AU Conference of Ministers of Social Development in 2008, endorsed by the AU Executive Council in January 2009.

The framework states that "social protection has multiple beneficial impacts on national economies and is essential to build human capital, break the intergenerational poverty cycle and reduce the growing inequalities that constrain Africa's economic and social development". It recommends that governments should provide for national legislation on social protection; develop national development plans and poverty reduction strategies with links to MDG processes and outcomes; and review and reform social protection programmes.

Source: *UNECA compilation.*

Latin America's experience with conditional cash transfers demonstrates the potential impact of social protection programmes on social and human development indicators. Brazil's and Mexico's cash transfer programmes, for example, which link child income support to attendance at school and immunization, have greatly lifted enrolment and nutritional levels of children.

A UNECA study of social protection programmes in nine African countries in 2010 also confirmed the benefit of social protection instruments as they relate to six MDGs (table 2.5). All intervention types have a high impact on poverty, and most have a strong effect on child health. Cash transfers, school feeding programmes, productive safety nets and non-contributory pensions have the most widespread effects for attaining the MDGs.

Table 2.5

Impact of social protection interventions on MDGs 1–6

Intervention	MDG 1	MDG 2	MDG 3	MDG 4	MDG 5	MDG 6
Cash transfers	High	High	Medium	Medium	Low	Medium
School feeding	High	High	High	High	Low	High
Public works	High	Low	Low	Medium	Low	Low
Farm subsidy	High	Low	Low	High	Low	Medium
Productive safety net	High	High	Medium	Medium	Medium	Medium
Non-contributory pensions	High	Medium	Medium	High	High	High

Source: *UNECA (2010).*

The interventions with the strongest impact are those that rebuild the productive capacities of vulnerable groups. Cash transfers, for example, provide protection to the poorest groups, families with children in school, pregnant mothers and those with HIV/AIDS.

In Ethiopia, a productive safety net programme supports vulnerable populations while enhancing their productive capacity. It has three core components: labour-intensive public works for the actively productive population, conditional transfers for very poor people who cannot participate in productive work and unconditional transfers for people with no assets (UNECA, 2010).

Successful social protection programmes are well targeted, anchored by strong political support, effectively coordinated and not overly dependent on external funding. Other important conditions for success are institutional frameworks—to increase the likelihood of predictable and adequate funding—national guidelines and budget provisions, and close attention to the programmes' fiscal sustainability.

On this last point, African countries must plan for sustainable social protection by efficiently mobilizing domestic resources, reallocating budgets and cautiously using external support. When governments adopt specific social protection instruments (such as cash transfers) without complementary interventions that support livelihoods (such as skills acquisition), they make it hard for people to exit the poverty trap and undermine fiscal sustainability.

Lastly, for social protection to strengthen social development, authorities should manage schemes holistically, considering both life-cycle risks (such as early childhood and old age) and livelihood risks (such as unemployment or food production shocks). Run this way, programmes tend to generate maximum benefits for reaching the MDGs and other human development indicators (UNECA, 2010).

2.4 Africa's outlook set fair

AFRICAN ECONOMIES ARE poised to continue growing reasonably well in the medium term. Growth is expected to recover to 5.1 per cent in 2012 and 5.2 per cent in 2013, underpinned by strong export demand, rising commodity prices and firm domestic demand (buttressed by government infrastructure spending).

North Africa is set on a recovery path as political stability returns, and is projected to grow by 4.7 per cent and 5.4 per cent in 2012 and 2013, respectively. Growth in West Africa is forecast to pick up to 6.3 per cent and 6.5 per cent in these two years, while growth in Central Africa is projected at 4.7 per cent in 2012 and 3.7 per cent in 2013. East Africa is expected to post somewhat stronger growth of 6.3 per cent in 2012, and 5.8 per cent in 2013. Growth in Southern Africa is projected to be a strong 4.5 per cent in 2012 and 4.2 per cent in 2013 (UN-DESA, 2011).

This positive outlook largely depends on the health of the global economy. Failure by euro area governments to resolve their sovereign debt crisis will obviously affect Africa on many fronts, while emerging economies—the main driver of Africa's exports—face some risks of overheating. If demand falls for African commodities, the external sector could contract sharply. Further, a global downturn would hit Africa's service sector, particularly tourism, and could reverse capital flows to Africa, including ODA, FDI and remittances, undermining Africa's financial markets.

But Africa, ultimately, decides its own destiny: economic recovery is likely to take place in an environment of persistent high unemployment and increasing global economic vulnerability, challenging African leaders in 2012 and beyond—to harvest and then distribute the fruits of growth more equitably, to bring down unemployment and to resolve persistent food-price inflation.

These are all difficult issues that require a combination of well-designed macroeconomic, structural and social policy interventions that track each country's circumstances and that unleash Africa's productive potential—the subject of the next two chapters.

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Notes

1 African Financial Community.

2 FDI data are available for only 38 countries.

3 Primary commodities typically adjust through prices rather than volume owing to extremely slow supply responses.

4 They overlap.

5 LDCs will still enjoy DFQF access under the Everything but Arms Scheme, LICs and LMICs will have the option of the generalized System of Preferences, but Botswana and Namibia, as upper middle income countries, will have neither option available if they choose not to work towards ratification (ICTSD and ECDPM 2011).

6 See Boumellassa et al. (2009) for more details.

7 The top 10 recipients (accounting for more than half the total) were Ethiopia, Egypt, Tanzania, Morocco, Uganda, Mozambique, Ghana, Kenya, the Democratic Republic of the Congo and Mali.

8 Africa, excluding North Africa, accounted for about 68 per cent of all people living with HIV and 70 per cent of new HIV infections.

9 Algeria, Botswana, Cape Verde, Eritrea, Madagascar, Namibia, Rwanda, Sao Tome and Principe, South Africa, Swaziland and Zambia.

10 Angola, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Guinea Bissau, Kenya, Lesotho, Malawi, Liberia, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, Somalia, Sudan, Tanzania and Zimbabwe.

11 Social protection may be defined loosely as "a set of measures that support society's poorest and most vulnerable members and help individuals, households and communities to better manage risks" (UNECA et al., 2011).