

CHAPTER

1

RECENT ECONOMIC AND SOCIAL DEVELOPMENTS IN AFRICA



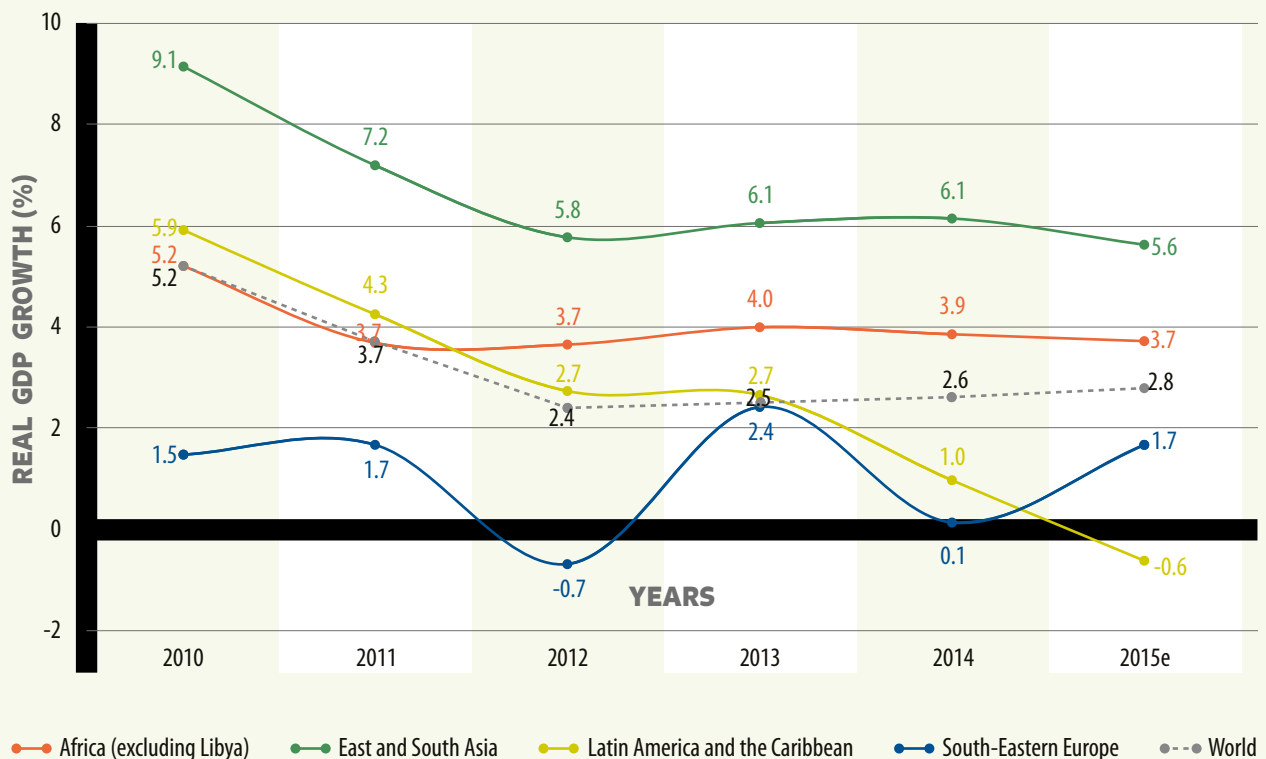
Global economic growth slipped from 2.6 per cent in 2014 to 2.4 per cent in 2015, reflecting subdued growth in gross fixed capital formation (investment) and households' final consumption. Growth moderation in China and declining economic activity in Brazil, the Russian Federation and other commodity-exporting countries weighed on global growth (box 1.1).

African countries, however, experienced wider fiscal deficits: for commodity exporters, mainly because of less fiscal revenue from commodities as prices declined; for many countries, because of expansionary fiscal policies through increased expenditure on infrastructure development; and for countries with presidential and parliamentary elections, because of election-related outlays.

Africa's economic growth also declined moderately amid these global headwinds. Growth in many of the continent's countries was underpinned by increased private consumption owing to greater domestic demand (reflecting increased government spending on infrastructure projects and the rising middle class) and greater investment encouraged by an improved business environment and lower cost of doing business. Most

All the African subregions and economic groups had current account deficits in 2015, driven in part by declining commodity prices. Most African countries exercised tight monetary policy as global headwinds buffeted the region, mainly to curb rising inflation and high fiscal and current account deficits. Inflation increased mainly owing to weaker domestic currencies on declining commodity prices and to rising food prices.

FIGURE 1.1 ECONOMIC GROWTH IN AFRICA AND EMERGING AND DEVELOPING COUNTRIES, 2010–2015



SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2015) AND EIU (2015).
NOTE: e=ESTIMATES.

**BOX 1.1 KEY DEVELOPMENTS IN THE WORLD ECONOMY IN 2015****Growth**

Gross domestic product (GDP) growth in developed economies edged up from 1.7 per cent in 2014 to 1.9 per cent in 2015 and is expected to rise to 2.2 per cent in 2016, driven mainly by faster growth in the United States (US) and the euro area.

In the US, growth in 2015 stayed at around 2014's 2.4 per cent, but is expected to inch up to 2.6 per cent in 2016, driven by a combination of factors such as increased private consumption—which benefited from steady job creation in every sector, income growth, lower oil prices and improved consumer confidence—and a lower unemployment rate (IMF, 2015). The unemployment rate declined steadily from 7.9 per cent in 2013 to 6.2 per cent in 2014 and to 5.9 per cent in 2015; it is projected to reach 5.5 per cent in 2016 (ILO, 2015a).

In Japan, growth is estimated at 0.5 per cent in 2015, a switch from a 0.5 percent contraction in 2014. It is projected to reach 1.3 per cent in 2016, supported by the fall in oil prices and real wage gains. But a planned increase in the consumption tax in 2017 and rising spending owing to continued population aging (and shrinkage) will crimp GDP growth in the medium and long terms.

Developed economies continued to rely on highly accommodative monetary policy to deliver growth in 2015. Over the forecast period, the vast majority of central banks in developed countries—the Federal Reserve of the United States aside—are expected to maintain this stance. This divergence has been linked to a strong US dollar appreciation against other developed-economy currencies, and is expected to lead to a substantial redistribution of real net exports from the United States to Japan and Europe. Low commodity prices have generally supported the outlook in developed economies, except the

oil-heavy economies of Canada and Norway, where investment in the hydrocarbon sector has stalled and economic prospects have deteriorated markedly.

In the euro area, growth edged up from 1.4 per cent in 2014 to 1.9 per cent in 2015, bolstered by improved business and consumer confidence, and a recovering banking sector but also by increased consumption supported by lower oil prices, higher net exports and tapering fiscal consolidation. Despite the illegal migration crisis, growth is projected to continue on its positive path, marginally improving to 2.0 per cent in 2016.

In emerging and developing economies, GDP growth declined from 4.3 per cent in 2014 to 3.8 per cent in 2015, underpinned by weaker export demand, lower commodity prices, lower capital inflows and sluggish investment. In some cases, military conflicts, natural disasters and adverse weather effects on agricultural output put downward pressure on growth. But stronger demand from developed countries and stabilizing commodity prices are expected to nudge growth up to 4.3 per cent in 2016 and 4.8 per cent in 2017. The decelerating Chinese economy, political tensions in Russia, declining confidence and lower oil prices point to a further short and medium-term GDP growth slowdown in this group. Growth in East and South Asia was 5.6 per cent in 2015 and is expected to rise only marginally to 5.8 per cent in 2016, mainly on concerns over the Chinese economy's health. Heightened volatility in financial markets coupled with strong capital outflows from China will continue weighing on regional GDP growth, particularly in Hong Kong and Taiwan (China), given their strong ties to China's economy.

Latin America and the Caribbean moved from 1.0 per cent growth in 2014 to a 0.6 per cent contraction in 2015, marking wors-

ening economic activity for the third year, driven by slowing commodity exports from Bolivia, Brazil, Colombia, Chile, Ecuador and Venezuela. Lower commodity prices and subdued global trade, the economic slowdown in China and expectations of normalizing US monetary policy are the main factors affecting the region. The outlook is positive, however, with growth projected to recover to around 0.7 per cent in 2016.

Unemployment

Global unemployment—at 203 million—is estimated to have risen by 2 million in 2015, with an estimated youth unemployment rate of 13.1 per cent, (almost three times higher than adults), increasing from 13 per cent in 2014. Moderate economic growth in recent years has failed to create enough jobs to lower the high unemployment rate stemming from the global financial crisis. A total of 280 million jobs will be needed to bridge this gap (due to the crisis) over the next five years when taking into account new entrants in the labour market (ILO, 2015a). Global unemployment improved to 7.5 per cent in 2015 from 7.8 per cent in 2014 owing to the recovery in growth, though developed economies will continue to face a higher unemployment rate. In Africa and the Middle East, the unemployment rate was estimated at more than 15 per cent in 2015 and is projected to rise further.

In 2014, global unemployment stood at 201.3 million in 2014, up by 1.2 million from 2013 and by about 31 million from 2007. In 2014, close to 5.9 per cent of the labour force was without a job, with wide variations across countries. Some countries in Africa and the Middle East have up to 30 per cent unemployment (ILO, 2015a). There will be no relief among countries in the Middle East and North Africa, which have the world's highest unemployment rates. Africa as a whole,

despite a relatively good performance less affected by the global economy's difficulties, will not see any real decline in its unemployment rate, stuck at around 10 per cent.

The global number of employed youth has been steadily decreasing for reasons beyond the business cycle. The global youth employment-to-population ratio—the share of the working-age population that is employed—declined by 2.7 percentage points between 2007 and 2014 (to 41.2 per cent). This ratio is declining in all regions except in Central, East, Southern and West Africa, which showed an increase from 46.9 per cent in 2000 to 48.0 per cent in 2014 (ILO, 2015b). But youth unemployment rates are expected to decline gradually in developed economies, particularly in the European Union (EU).

Inflation

Global inflation declined from 3.1 per cent in 2014 to 2.6 per cent in 2015, reflecting declines in commodity prices, especially oil, and weakened demand in many emerging and advanced economies. In developed economies, inflation is projected at 1.2 per cent in 2016, up from 0.3 per cent in 2015. Low inflation in Japan and the euro area is partly due to declining demand. In emerging and developing economies, domestic currencies depreciated because of low commodity prices, a strong US dollar and high food prices (which account for a large share in most countries' consumer price indices), lifting inflation from 6.7 per cent in 2014 to 7.7 per cent in 2015. The rise in inflation has been more pronounced in Africa's oil-exporting countries.

Commodity prices

Since mid-2014, global commodity prices have declined sharply. The global commodity price index of the International Monetary Fund (IMF) slid from 175 to 131 between August and December 2014 and to below 90.5 in December 2015, with crude oil prices

tumbling to less than \$37 a barrel. The fall in the oil price was driven by supply increases in oil production (including shale oil, mainly in the United States) and the subsequent shift in the strategy of the Organization of the Petroleum Exporting Countries (OPEC) of not easing production, alongside production increases outside OPEC and demand weakness in emerging market economies.

Average annual metal prices declined by 17 per cent in 2015 and are expected to continue falling in 2016, mainly driven by the slowdown in China's construction sector. Despite the overall decline of agricultural commodity prices—down 16 per cent in 2015 from 2014—global tea prices climbed slightly, supported by dry-weather concerns in Kenya and parts of Southern Africa. Overall food prices are expected to further increase in 2016 while vegetable oil prices, particularly those of wheat and soybeans, are projected to decline slightly (UN-DESA, 2016).

World trade and current account balance

At 2.6 per cent in 2015, world trade growth was at its slowest since the global financial crisis, reflecting a mix of factors: weak aggregate demand in emerging and developed economies, especially China and the euro area; the US dollar's appreciation; and rising geopolitical tensions in Iraq, Syria, Russia and Ukraine. They affected trade in developing countries, such as those in Africa. China, for example, accounts for more than 12 per cent of global merchandise exports and about 10 per cent of merchandise imports, so its demand slowdown has hit hard global demand for some commodities. China accounted for an estimated 20 per cent of the slowdown in developing and emerging economies' import growth between 2014 and 2015 (UN-DESA, 2016). In 2016, however, global trade growth is projected to accelerate to 4.0 per cent, due to strengthening demand from developed countries, which is

expected to lift exports of developing countries in Latin America and Asia.

Global current account imbalances stayed stable in 2015 compared with 2014 and are projected to follow the same trend in the short term, despite weakening commodity prices. Growth in global net foreign direct investment (FDI) rose slightly in 2015, underpinned by an increase in net FDI in low-income developing countries of 5.3 per cent against 4.8 per cent growth in 2014 (World Bank, 2015a).

Risks

The global outlook in the short term is on balance slightly positive, with growth projected at 2.9 per cent in 2016. But persistent macroeconomic uncertainties and commodity-price volatility will continue shaping the medium-term outlook. Exchange rate volatility has become more pronounced against a backdrop of falling commodity prices, subdued global growth patterns, declining trade flows, declining capital flows and diverging monetary policies (UN-DESA, 2016).

Still, continuing lower oil prices may be good on balance for Africa given the number of oil importers, though oil exporters may well see their current account balances deteriorate and their currencies depreciate.

The overall impact on Africa will strongly depend on the recovery momentum in China and the euro area (Africa's main trading partners). Political tensions in Syria and elsewhere in the Middle East and massive illegal migration to the euro area are also serious concerns since they will directly affect demand from trading partners. Continued US monetary policy tightening will also have a tendency to attract capital from developing and emerging economies.



Africa's medium-term prospects remain positive, despite downside risks such as the drought in the Eastern and Southern parts of the region, which might seriously hit agricultural production since most of the economies are based on agriculture. A still-weak global economy, monetary tightening in the United States (US) and concerns over security and political instability in some countries remain challenges.

The task confronting Africa is not only to maintain rapid economic growth but also to transform into sustained and inclusive development, based on economic diversification that creates jobs, enhances access to basic services, reduces inequality and contributes to poverty eradication while not undermining the natural resource base. This challenge underlies renewed calls by countries for a structural transformation that fosters sustained and inclusive growth. Africa's industrialization and structural transformation should involve factor accumulation (including investment in natural capital), factor reallocation and organization, technological knowledge and innovation to drive the emergence of new, dynamic green activities, and

an increase in the importance to national economies of green sectors such as organic agriculture, renewable energy and ecotourism.

Greening Africa's industrialization can be a major source of growth, providing opportunities to create jobs. The green sector can improve Africa's trade balance by reducing energy imports, and raise foreign exchange by exporting green goods and services. With most African countries sharing common environmental challenges, such greening would promote regional integration and cooperation and the growth of continent-wide innovation capabilities.

The rapid growth of the working age population (aged 25–64), increasing urbanization and the dominance of informal employment have weighty implications for the continent's structural transformation. While young people provide a valuable resource to be harnessed in national development, they can drive green industrialization only if they have green jobs in different sectors. And since most of these jobs are in urban areas, cities must also be included in Africa's green agenda.

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1.1 RECENT ECONOMIC DEVELOPMENTS IN AFRICA

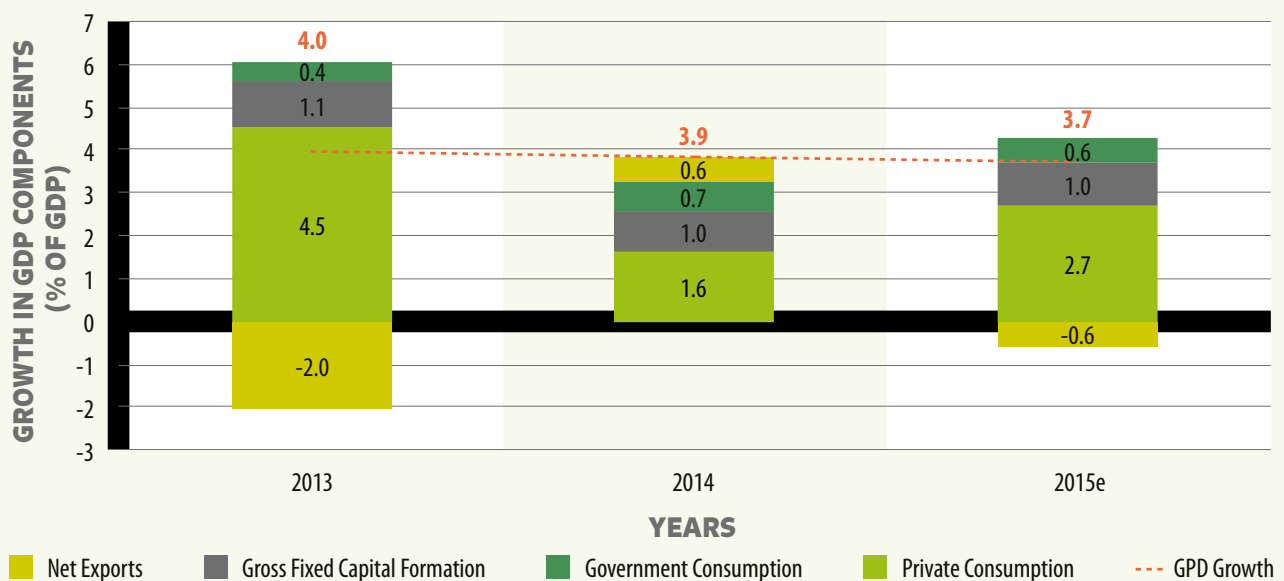
Africa's growth rate declined slightly from 3.9 per cent in 2014 to 3.7 per cent in 2015 (figure 1.1), an average that masks high growth in several large economies, including Kenya (6.4 per cent) and Ethiopia (7.3 per cent). South Africa maintained its slow growth (1.8 per cent).

Growth in Africa remains driven by private consumption and investment (figure 1.2). Growth in private consumption is propelled by increased consumer confidence and an expanding middle class. Investment is stimulated mainly by an improved business environment and lower costs of doing business. Continued government spending on infrastructure has also contributed to growth. Net exports, hit by weak and volatile commodity prices, crimped growth.

PRIVATE CONSUMPTION REMAINS AFRICA'S MAIN GROWTH DRIVER

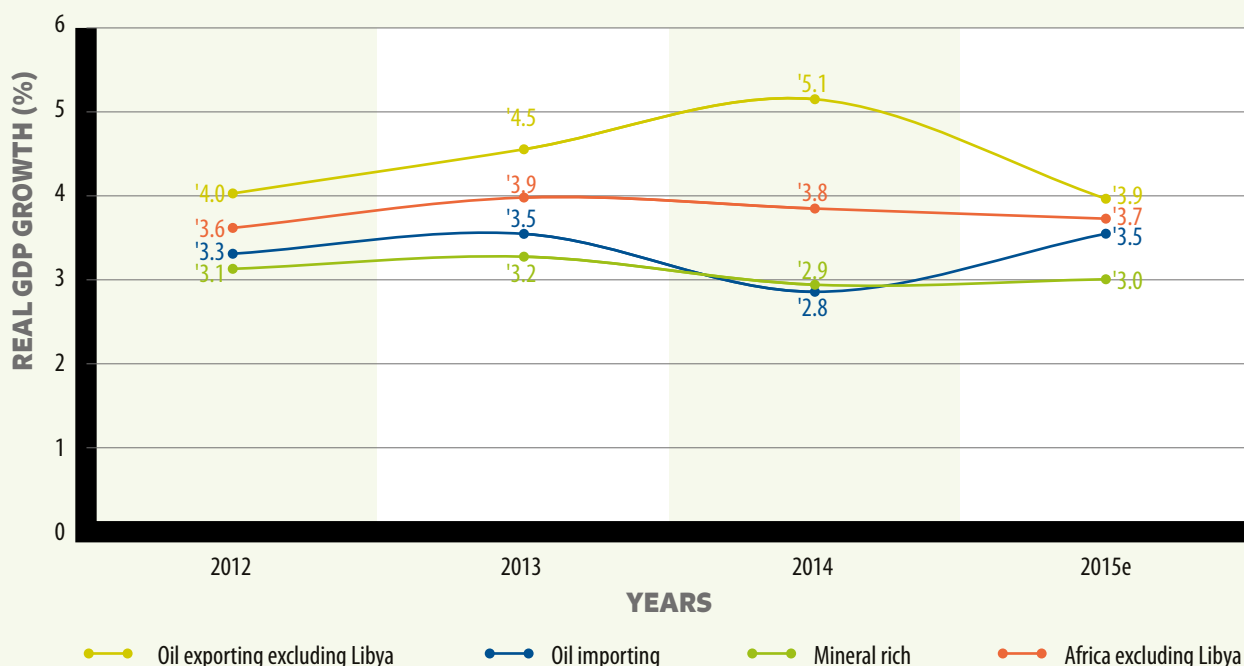
Relative to GDP, private consumption's growth increased from 1.6 per cent in 2014 to 2.7 per cent in 2015, representing 73 per cent of total GDP growth in the later year (figure 1.2). Despite increased African infrastructure development, gross fixed capital formation grew at only 1.0 per cent relative to GDP, accounting for 27 per cent of total GDP growth in 2015 (as in 2014). This was mainly because of the reduction in capital inflows tied to a slowing global economy, especially among Africa's development partners in the euro area and some emerging economies such as Brazil, China and the Russian Federation.

FIGURE 1.2 AFRICA'S GDP GROWTH AND ASSOCIATED COMPONENTS, 2013–2015



SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2015) AND EIU (2015).

NOTE: e=ESTIMATES.

FIGURE 1.3 AFRICA'S GROWTH PERFORMANCE BY ECONOMIC GROUP, 2012–2015


SOURCE: ECA CALCULATIONS, BASED ON UN-DESA (2015).

NOTE: e = ESTIMATES.

Despite low oil prices, oil-exporting countries, at 3.9 per cent growth, continue to perform well (as declining oil prices are partly cushioned by healthy dynamics in the non-oil sectors in some countries, such as increased investment in the agriculture, electricity, construction and technology sectors) compared with both oil-importing (3.5 per cent) and mineral-rich (3.0 per cent) countries, (figure 1.3). Mineral-rich countries saw a near-doubling in investment, from 0.7 per cent in 2014 to 1.3 per cent in 2015, and oil-exporting countries a marginal decline, from 1.6 per cent to 1.5 per cent. Growth in these two groups is driven mainly by private consumption, increasing at 2.5 and 3.2 per cent relative to total GDP, respectively (figure 1.4).

Growth in oil-importing countries moved up from 2.8 per cent in 2014 to 3.5 per cent in 2015; that in oil-exporting countries slid from 5.1 per cent to 3.9 per cent; and that in mineral-rich countries recorded a marginal increase from 2.9 per cent to 3.0 per cent. ECA analysis using monthly data from January 2000 to October 2015 shows that oil prices

have had a statistically significant positive impact in oil-importing and mineral-rich countries, but a negative and insignificant impact on oil-exporting countries. The overall effect of low oil prices on Africa's growth thus appears marginal (box 1.2).

Private consumption continued to be the main GDP growth driver across subregions in 2015, despite the decline in its share to growth in East and Central Africa, mainly due to the global economic slowdown that has led to a reduction in investment flows to these subregions. Compared to GDP, private consumption increased significantly in North, Southern and West Africa, growing at 2.2 per cent, 2.1 per cent and 3.4 per cent, respectively, in 2015. Meanwhile, compared to total GDP, gross capital formation also increased significantly in the East and North Africa subregions, growing at 1.8 per cent and 1.6 per cent relative to GDP, respectively, mainly as a result of increased investments in infrastructure projects in both subregions.

BOX 1.2 LOW OIL PRICES HAVE A MARGINAL EFFECT ON OVERALL AFRICAN GROWTH

Crude oil prices continued to decline at a 4.1 per cent monthly average from June 2014 to October 2015. Higher supplies alongside lower demand (owing to the global economic slowdown) largely account for the decline (IMF, 2015).

BOX FIGURE 1.1 CRUDE OIL PRICE AND AFRICA'S GDP GROWTH, JANUARY 2007–OCTOBER 2015

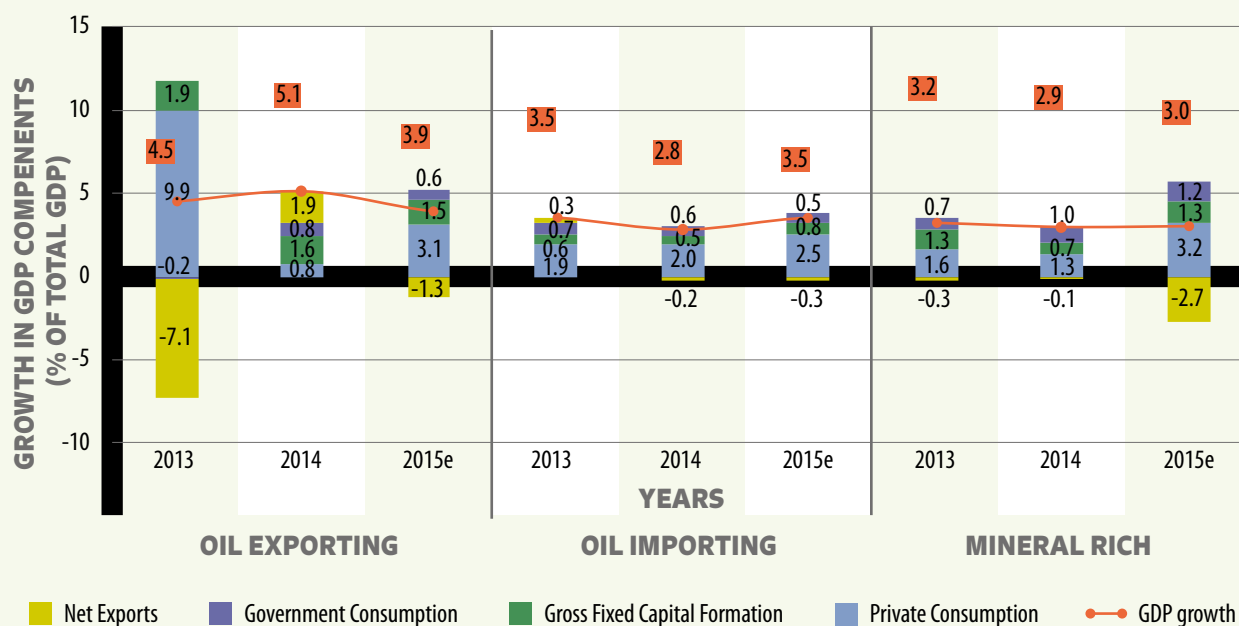


SOURCE: IMF (2015) AND UN-DESA (2015).

The oil decline's impact on Africa's growth is found to be marginal, since it contributed only about 0.08 percentage points to Africa's growth from January 2000 to October 2015; the oil-price shock contributed marginally to growth in the subperiod from June 2014 to October 2015.

By economic group, oil prices had a marginal negative impact on oil-exporting countries' growth, contributing 0.3 percentage points over the period January 2000–October 2015, but a positive and significant contribution to growth in oil-importing and mineral-rich countries, of 0.14 percentage points and 0.15 percentage points, respectively. This is despite the decline in oil prices having a marginal but insignificant negative impact on both oil-importing and mineral-rich countries in the subperiod from June 2014 to October 2015.

This marginal impact of the oil price decline emphasizes the importance of African countries continuing to diversify their economies, especially into non-oil sectors, and the impact of improved macroeconomic management and associated fiscal policies.

FIGURE 1.4 AFRICA'S GDP GROWTH AND ITS COMPONENTS BY ECONOMIC GROUP, 2013–2015


SOURCE: ECA CALCULATIONS, BASED ON EIU (2015).

NOTE: e = ESTIMATES.

VARYING GROWTH PERFORMANCE AMONG SUBREGIONS

East Africa maintained the highest growth rate in the region, at 6.2 per cent in 2015, despite a decline from 7.0 per cent in 2014 owing to slower growth in Ethiopia and Democratic Republic of Congo (DRC). Ethiopia's net exports suffered from low commodity prices and an increase in imports of capital goods and construction-related services. Its drought is one of the risks facing the country, particularly for food security. In DRC, the growing service sector and the dominant mining sector still drive growth, though political uncertainties in that country weigh on subregional growth. Infrastructure development, robust private consumption and exports drive growth in Ethiopia, Kenya and Tanzania.

Growth in West Africa slowed to 4.4 per cent in 2015, from 5.7 per cent in 2014, mainly because of slower growth in Nigeria, emanating from weaker

oil prices, uncertainty surrounding the March 2015 elections, power outages and the war against Boko Haram. In Ghana, lower cocoa production and energy challenges slowed growth, while in Côte d'Ivoire continued public infrastructure investment and robust performance in services and agriculture supported growth. The Ebola outbreak's consequences in the three most affected countries—Guinea, Liberia and Sierra Leone—hit their expansion, even if Guinea and Liberia returned to positive growth.

In Central Africa, overall growth slipped from 3.5 per cent in 2014 to 3.4 per cent in 2015, despite improved mining performance. Most countries maintained relatively high growth, but security concerns in the Central African Republic (CAR) and lower oil production in Equatorial Guinea contributed to a decline in subregional GDP.

Growth in North Africa (excluding Libya) accelerated from 2.8 per cent in 2014 to 3.6 per cent in

2015, helped by improved political and economic stability, and a subsequent increase in business confidence, especially in Egypt and Tunisia. Heavy external aid to Egypt raised public expenditure and boosted investment in large infrastructure projects, such as the Suez Canal's expansion. The gradual recovery of export markets and hopes for improved security should support growth, especially through tourism. Algeria's oil production picked up for the first time in eight years and is boosting growth. Mauritania still has the fastest (and steadiest) growth in the region, supported by sound macroeconomic and structural policies. Growth was buttressed by mining and construction, and by private consumption and investment—exceptionally high investment of about 45 per cent of GDP bodes well for the future. Continuing political challenges in Libya continue to hurt political and economic governance in the subregion.

Southern Africa's growth increased marginally from 2.4 per cent in 2014 to 2.5 per cent in 2015, heavily influenced by poor growth in the subregion's largest economy, South Africa. Weak export demand and low prices for key raw materials, as well as electricity shortages, subdued South Africa's performance. In Angola, GDP growth remained strong despite low oil prices, as the government embarked on investing in strategic non-oil sectors such as electricity, construction and technology. Mozambique and Zambia recorded the highest growth in the region, driven respectively by large infrastructure projects and FDI in mining.

LOW COMMODITY PRICES AND LARGE INVESTMENT PROJECTS EXPLAIN GROWING FISCAL DEFICITS

Africa's aggregate fiscal deficit increased from 5.1 per cent of GDP in 2014 to 5.6 per cent in 2015 (figure 1.5). The continuing decline of oil prices and other volatile (and largely declining) commodity

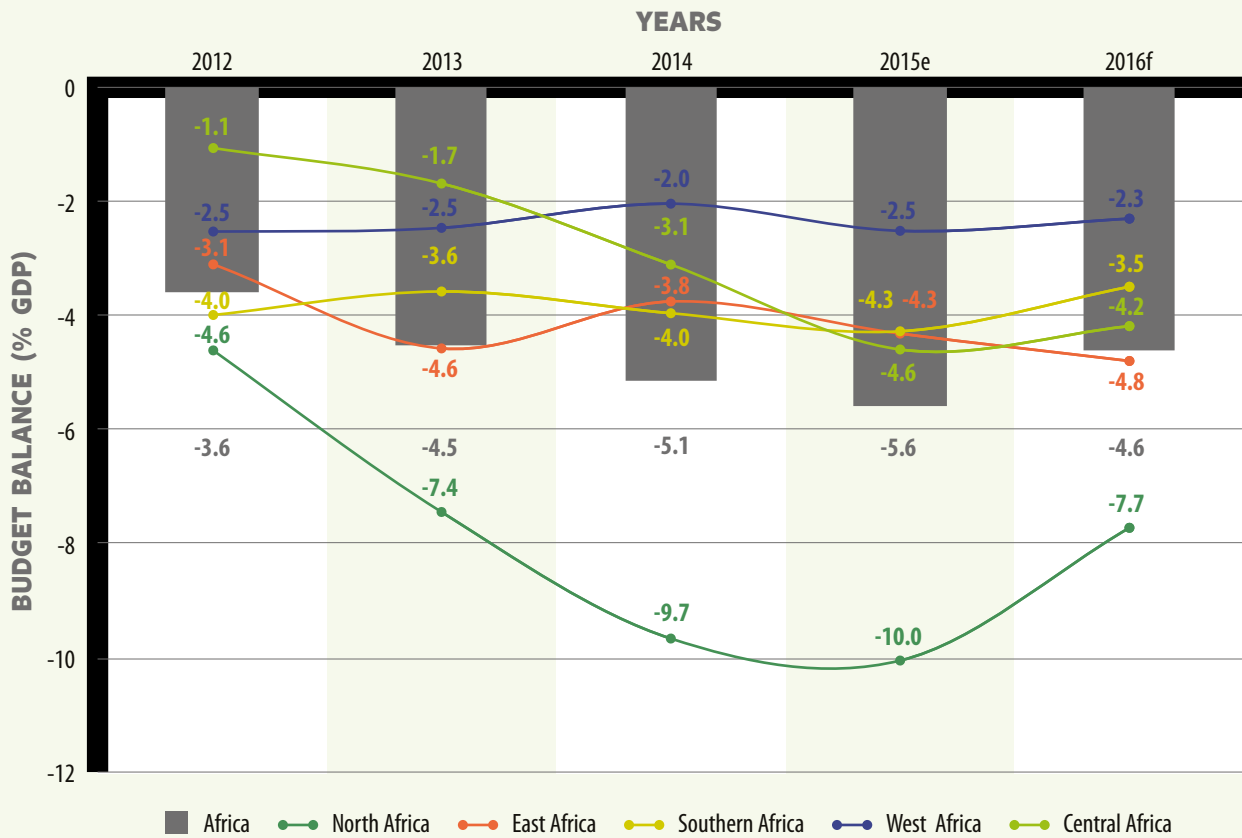
In Angola, GDP growth remained strong despite low oil prices, as the government embarked on investing in strategic non-oil sectors such as electricity, construction and technology.

prices reduced fiscal revenue in many countries, whereas high spending on infrastructure, fiscal loosening and higher spending in the lead-up to elections in some countries raised government spending. The fiscal deficit is expected to narrow in 2016 to 4.6 per cent of GDP as growth in emerging and developed economies, and commodity prices (of some commodities in the near term), are expected to pick up (UN-DESA 2016).

The fiscal deficit was the largest in the North African subregion, widening from 9.7 per cent of GDP in 2014 to 10.0 per cent in 2015. Increased spending on large public investments, continued subsidies for basic goods (in, for example, Morocco and Tunisia) and election-related expenditure (in Morocco) continued to exert pressure on public spending.

In West Africa, the fiscal deficit widened from 2.0 per cent in 2014 to 2.5 per cent in 2015, mainly driven by deteriorating fiscal balances in Nigeria and Ghana. But in Nigeria, low oil prices' impact on fiscal balance is, to some extent, offset by the use of the buffers from oil-revenue savings and improved non-oil sector performance led by the services sector. In East Africa, the deficit increased from 3.8 to 4.6 per cent due to expansionary fiscal policies, mainly through increased spending on infrastructure and mining activities in Ethiopia, Kenya, Madagascar, Tanzania and Uganda.

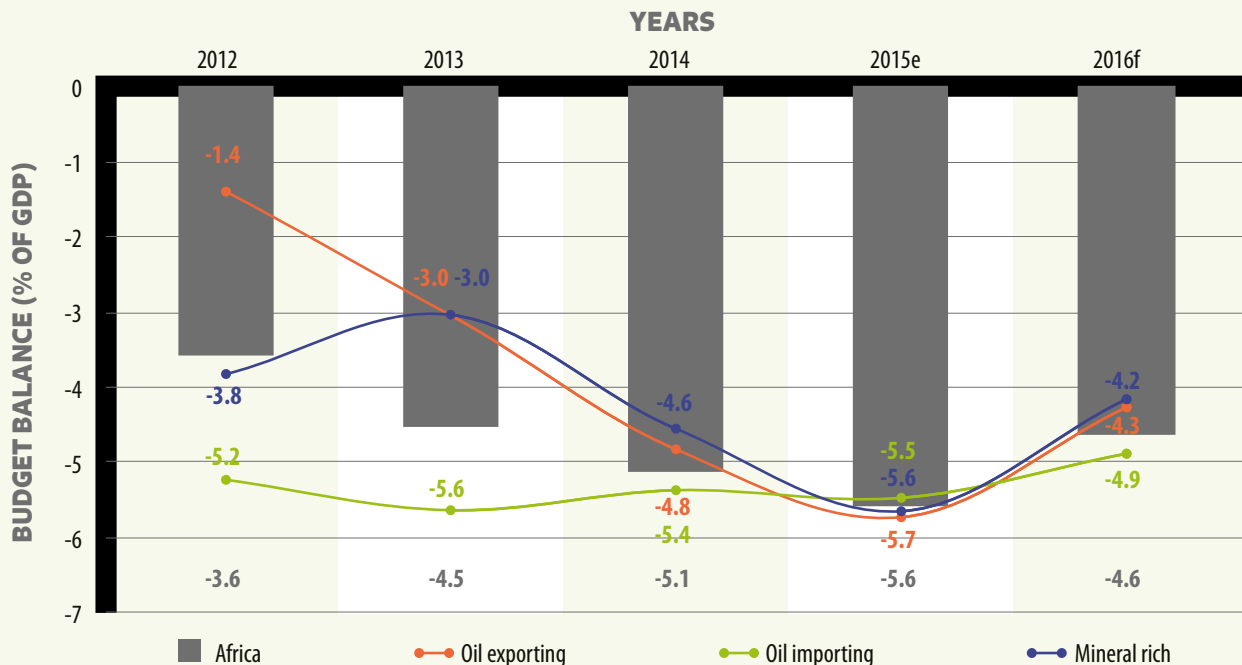
FIGURE 1.5 AVERAGE BUDGET BALANCE BY SUBREGION, 2012–2016



SOURCE: ECA CALCULATIONS, BASED ON EIU (2015).

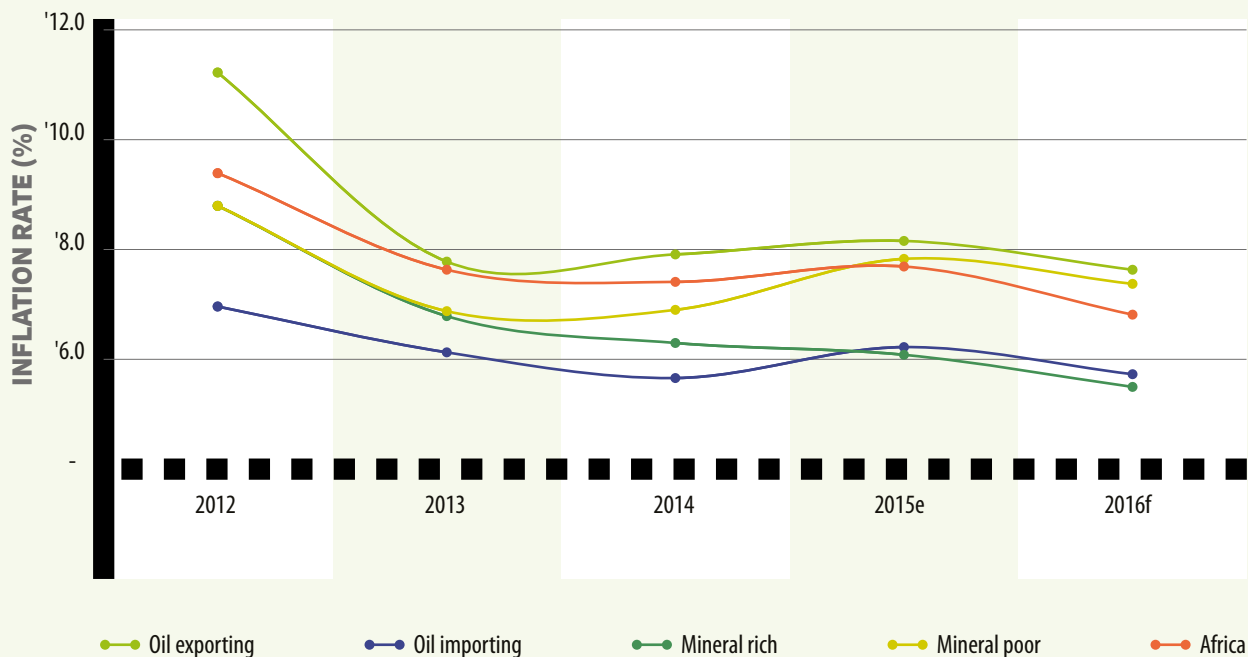
NOTE: e = ESTIMATES; f = FORECASTS.

FIGURE 1.6 AVERAGE BUDGET BALANCE BY ECONOMIC GROUP, 2012–2016



SOURCE: ECA CALCULATIONS, BASED ON EIU (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

FIGURE 1.7 INFLATION BY ECONOMIC GROUP, 2012–2016

SOURCE: ECA CALCULATIONS, BASED ON UN-DESA (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

Central Africa saw its fiscal balance deteriorate the most, from 3.1 per cent to 4.6 per cent, mirroring expansionary fiscal policies, including infrastructure development in Cameroon, Chad, Republic of Congo and Equatorial Guinea (though with swinging cuts in recurrent expenditure) and election spending in Chad and Republic of Congo. In Southern Africa, the deficit expanded from 4.0 per cent to 4.3 per cent of GDP, largely in response to low commodity prices, which have affected the mining sector in Botswana, South Africa and Zambia and the oil sector in Angola.

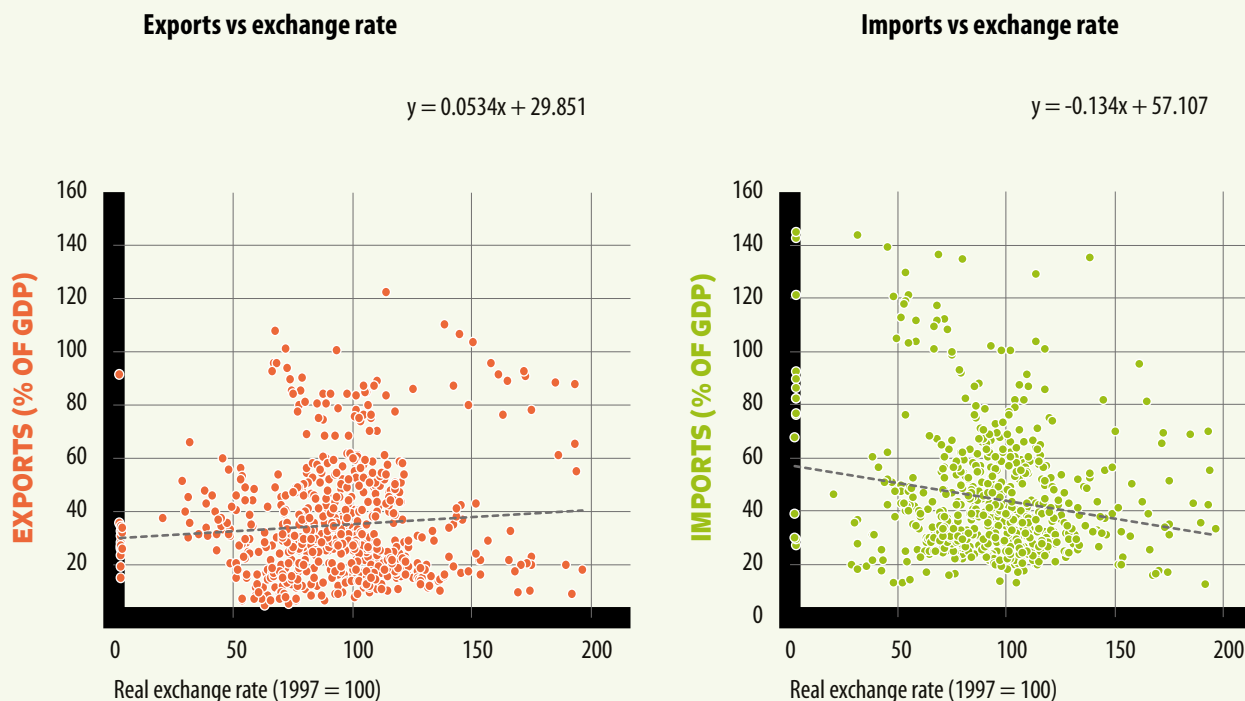
Fiscal deficits are expected to improve in 2016 to 4.6 per cent of GDP, and in all subregions except East Africa, where the deficit is forecast to widen to 4.8 per cent. Despite efforts to mobilize tax revenue and restrain expenditure in Rwanda, security concerns in Kenya weigh on tourism, the country's main source of foreign exchange.

Largely driven by low oil prices, oil-exporting countries' fiscal deficits reached their widest as

a share of GDP (since 2012) at 5.7 per cent, but they are projected to narrow to 4.3 per cent in 2016, with prices of some commodities (in the near term) are envisaged to recover and as some oil-exporters remove subsidies to alleviate pressure on their national budgets (figure 1.6). But with oil prices projected to remain low, fiscal revenue is not expected to move back to earlier levels in oil-exporting countries.

MONETARY POLICY WAS TIGHTENED AMID FALLING COMMODITY PRICES AND DECLINING REVENUE

African countries exercised tight monetary policy in response to inflationary pressure and high fiscal and current account deficits. Inflation rose from 7.2 per cent in 2014 to 7.5 per cent in 2015 (figure 1.7). A strong US dollar and high food prices exerted inflationary pressure on the region despite partly offsetting weak global growth and low commod-

FIGURE 1.8 REAL EXCHANGE RATE AND EXPORTS AND IMPORTS OF GOODS AND SERVICES, AS PERCENTAGE OF GDP, AFRICA, 2000–2014


SOURCE: ECA CALCULATIONS BASED ON EIU (2015) AND WORLD BANK (2015b).

NOTE: AN INCREASE IN THE EXCHANGE RATE INDEX INDICATES AN APPRECIATION OF THE CURRENCY.

ity prices. Currency depreciation, especially in oil-rich countries, amid falling oil prices and declining revenue and exports contributed to African inflation. Countries hiking policy rates to keep inflation in check included Angola, Ghana, Kenya, Malawi, South Africa and Uganda.

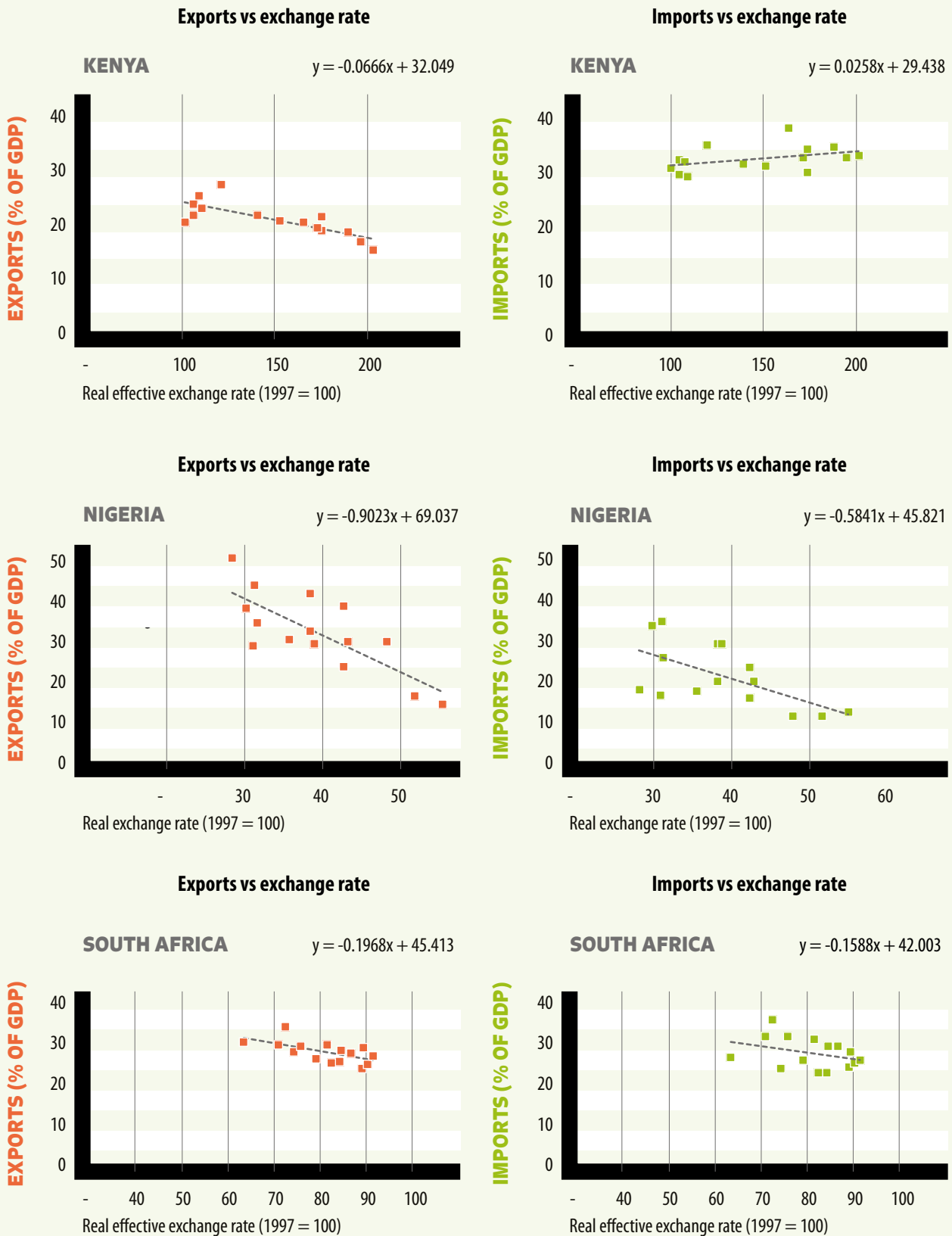
EXCHANGE RATES DEPRECIATED, THOUGH GENERALLY FAILED TO LIFT EXPORTS

Most African currencies depreciated in 2015, continuing a trend from 2014, driven partly by low oil prices, a strong US dollar and the expected tightening of US monetary policy. Currency depreciation should in theory see increased exports and decreased imports, but for African countries that association seems either weak or non-existent (figure 1.8).

This link's weakness could point to other factors behind Africa's lack of competitiveness, undermining depreciation's benefits. The decline in imports *and* exports during an exchange rate depreciation may suggest a lack of production diversification (since there are no local substitutes for expensive imports in terms of production inputs and final goods) and of value added, even if the cost of doing business in Africa has fallen.

For some of the continent's larger economies including Kenya, Nigeria and South Africa, the association between the real exchange rate depreciation and increased exports becomes stronger (figure 1.9). But the relationship between imports and the real exchange rate remains negative for Nigeria and South Africa, possibly reflecting reliance on imported inputs. For Kenya, the relationship is positive, as expected.

FIGURE 1.9 REAL EXCHANGE RATE AND EXPORTS AND IMPORTS OF GOODS AND SERVICES, AS A PERCENTAGE OF GDP, KENYA, NIGERIA AND SOUTH AFRICA, 2000–2014



SOURCE: ECA CALCULATIONS BASED ON EIU (2015) AND WORLD BANK (2015b).

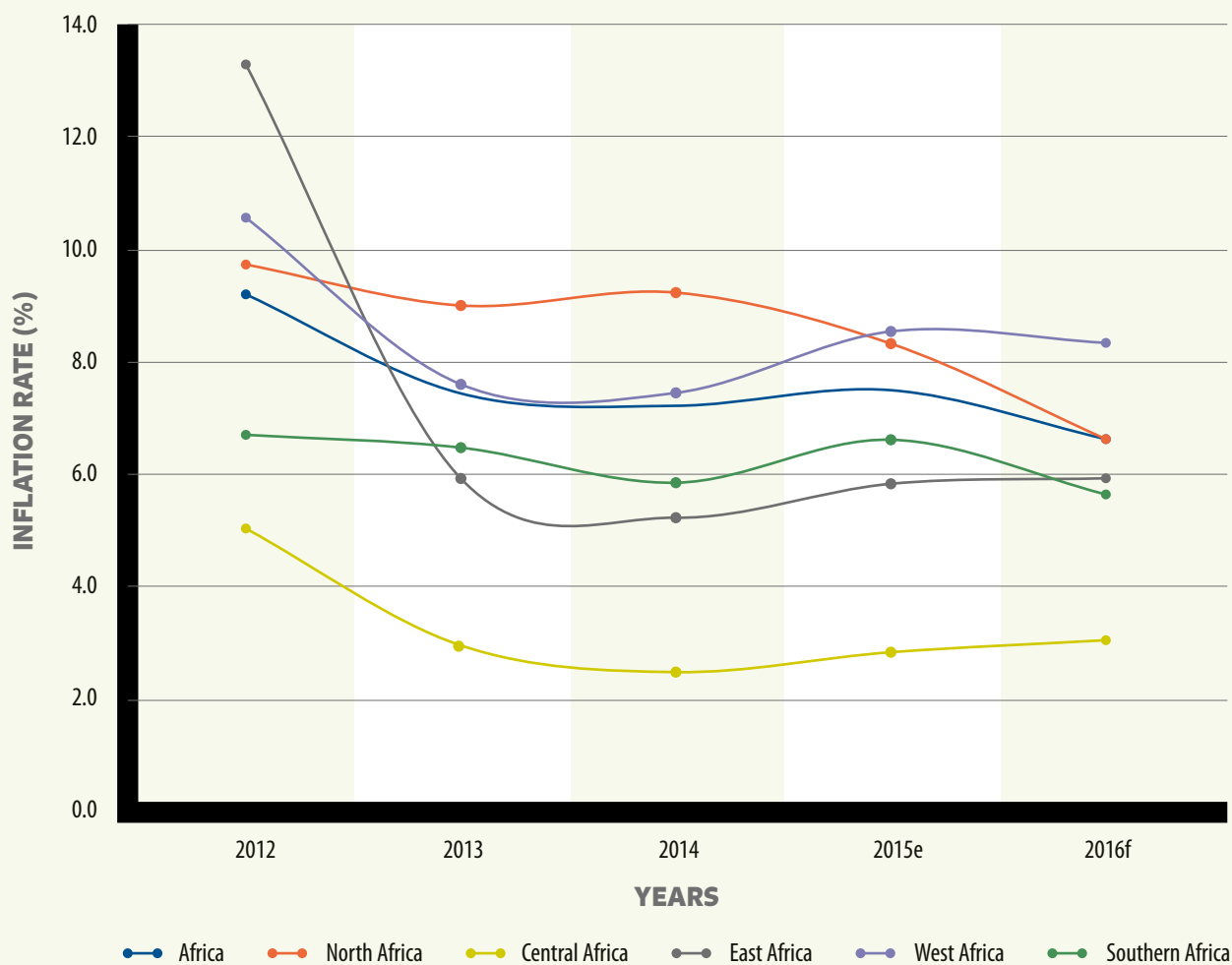
REGIONAL INFLATION REMAINED STABLE WITH LOW OIL PRICES

Regional inflation reached 7.5 per cent in 2015 up from 7.2 per cent in 2014, but is forecast to decline to 6.7 per cent in 2016 and 6.3 per cent in 2017 (figure 1.10). Inflationary pressure was reduced by lower global oil prices and the continuing fall in food prices since 2011 (estimated at a further 14 per cent drop in 2015),¹ while currency depreciations increased the risk of imported inflation. Prudent monetary policy in countries such as Kenya and South Africa have moderated inflation. Slightly lower inflation is expected in 2016 because of

lower food and energy prices, improved security and diminished impacts of subsidy cuts in 2014.

Inflation increased in all the subregions except North Africa, where it declined from 9.3 per cent in 2014 to 8.4 per cent in 2015. Inflation in Sudan tumbled from 37.7 per cent to 22.0 per cent, but remained stable (or increased) in all other countries in the subregion. The fall in Sudan was driven by the decline in international food prices (as food items constitute the largest proportion of the country's total imports) and central bank measures to contain inflation.

FIGURE 1.10 INFLATION BY SUBREGION, 2012–2016



SOURCE: UN-DESA (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

Inflation in East Africa rose from 5.3 per cent in 2014 to 5.9 per cent in 2015. In Kenya, it went down from 6.9 to 6.3 per cent and remained unchanged in Tanzania at 6.1 per cent. But it climbed steeply in Burundi (from 4.4 to 7.4 per cent), Ethiopia (from 7.4 to 10 per cent) and Uganda (from 4.3 to 5.7 per cent), respectively, reflecting, political instability, weather-related shocks and consequent increases in domestic food prices, and a depreciation of the domestic currency and rise in domestic food prices.

The euro's depreciation against the dollar depreciated the CFA franc in 2015, feeding a rise in West African inflation from 7.5 per cent in 2014 to 8.6 per cent. Public spending in Nigeria and currency depreciations in Ghana and Nigeria also added to subregional inflationary pressure.

Inflation was 6.6 per cent in Southern Africa in 2015, up from 5.9 per cent the previous year. While many countries in the subregion recorded falling inflation, the rise in inflation in Angola (from 7.5 to 11.0 per cent), Mozambique (from 2.6 to 4.5 per cent) and South Africa (from 5.3 to 5.9 per cent) stoked subregional inflationary pressure. Inflation was fueled mainly by currency depreciations, reductions of subsidies or rises in regulated fuel and utility prices (as in Angola, Malawi and Mozambique). Low oil prices and prudent monetary policy softened South Africa's inflationary pressure.

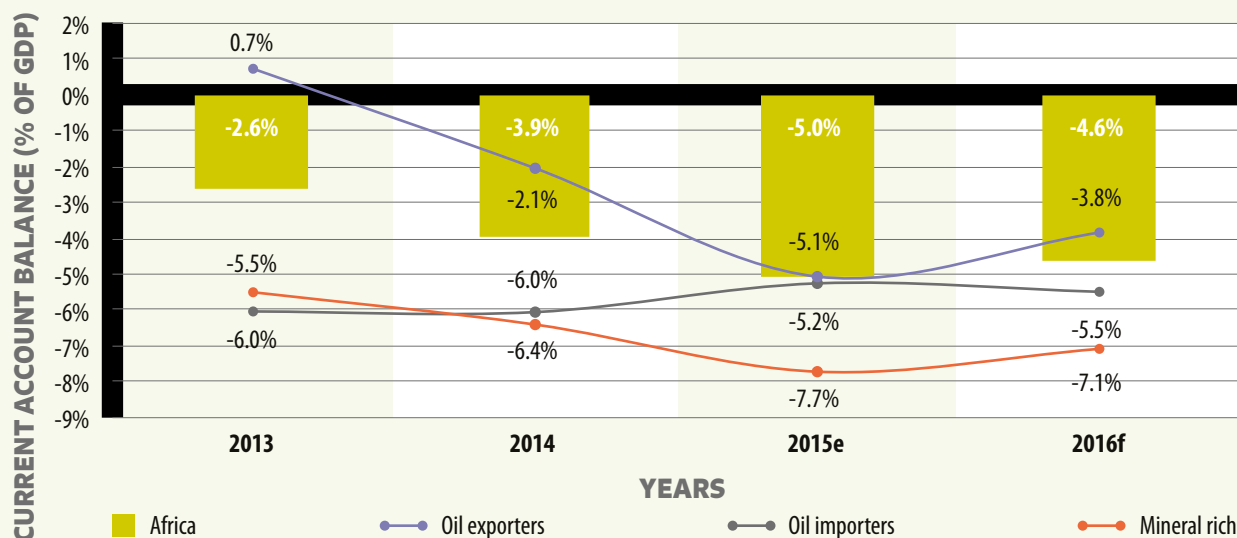
In Central Africa inflation remained fairly stable, edging up from 2.5 per cent in 2014 to 2.8 per cent in 2015, largely on the declines in oil prices and global demand.

The continent's imports are dominated by consumer goods, its exports by primary commodities: fuels, bituminous minerals and agricultural products such as cocoa, fruits, fertilizers and vegetables.

ALL ECONOMIC GROUPS AND SUBREGIONS RECORDED CURRENT ACCOUNT DEFICITS

The continent's current account deficit widened from 3.9 per cent of GDP in 2014 to 5.0 per cent in 2015, with all economic groups reporting deficits (figure 1.11). Declining commodity prices and global demand especially in emerging economies were major factors, with oil-exporting African countries together recording their first current account deficit since 2009 in 2014 (of 2.1 per cent), and a deficit of 5.1 per cent in 2015. Low oil prices narrowed oil importers' aggregate deficit. Of the subregions, the current account deficit was largest for Central Africa (8.1 per cent), followed by East Africa (7.4 per cent), Southern Africa (5.7 per cent), North Africa (5.3 per cent) and West Africa (3.1 per cent).

Africa's total exports of goods and services fell by 3.2 per cent in 2013 and by 5.2 per cent in 2014, while total imports grew by 3.0 per cent and by 1.7 per cent over the two years. The continent's imports are dominated by consumer goods, its exports by primary commodities: fuels, bituminous minerals and agricultural products such as cocoa, fruits, fertilizers and vegetables. By value,

FIGURE 1.11 CURRENT ACCOUNT BALANCE, 2013–2016


SOURCE: ECA CALCULATIONS BASED ON EIU (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

fuel exports fell by 13.2 per cent and ore and metal exports by 8.2 per cent in 2014. On a positive note, whereas Africa's exports to most of its trading partners have stagnated or even declined since the global economic crisis, intra-African trade remains relatively strong by volume, and diversified towards manufactured products and services (ECA, 2015a). Manufactured goods as a proportion of total intra-African merchandise exports stood at 41 per cent in 2014, down from 44 per cent in 2013, while fuel exports stood at 31 per cent in 2014, up from 29 per cent in 2013.²

Heavy dependence on natural capital, coupled with the high growth needed for the continent to achieve its economic and social development goals (including industrialization and structural transformation) will raise energy demand and greenhouse gas emissions. These outcomes will harm the environment unless African nations adopt green growth strategies, particularly renewable energy technologies to cut carbon emissions. Indeed, the uptake of renewables is a primary means of

cutting carbon emissions globally, even though the continent (excluding South Africa) accounts for less than 1 per cent of global carbon emissions, owing to its low electricity consumption (ICA, 2011). As highlighted in this report's thematic part, Africa has an enormous opportunity for greening its industrialization, mainly through the electricity subsector.

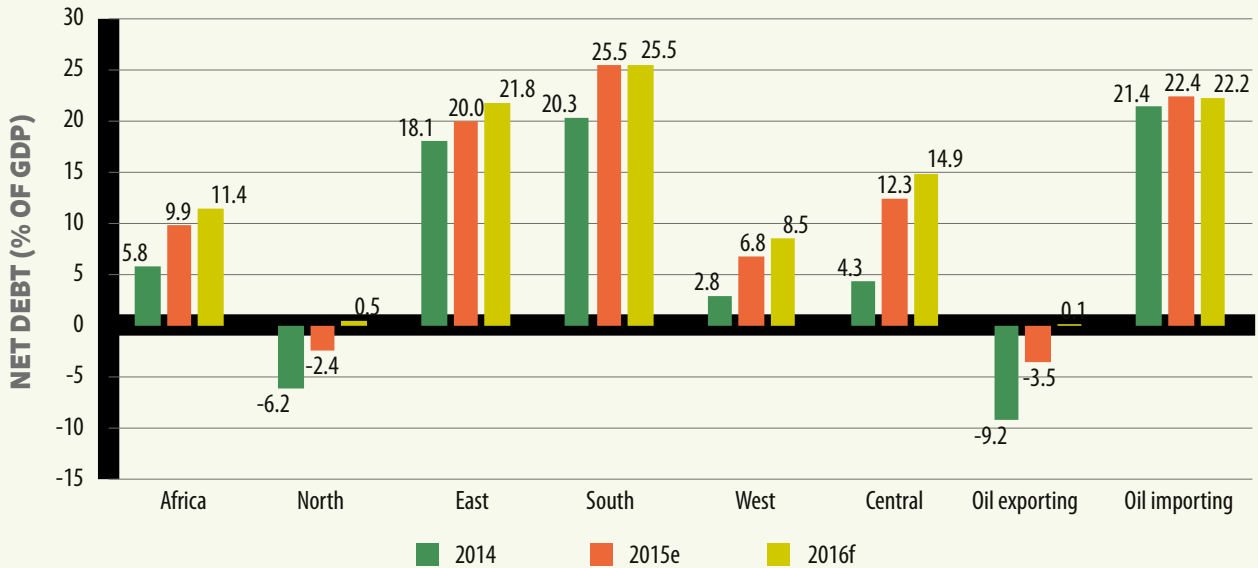
NET DEBT INCREASES ON THE BACK OF LOWER LENDING BY OIL-EXPORTING COUNTRIES; FDI REMAINS STABLE

Falling oil and other commodity prices drew down African countries' international reserves, to 15.8 per cent of GDP in 2015, from 17.1 per cent the year before. They also raised their net debt sharply, from 5.8 per cent of GDP in 2014 to 9.9 per cent in 2015, up from a mere 1.6 per cent in 2013 (figure 1.12). The main reason was a sharp fall in net lending

of countries in North Africa and the oil-exporting countries. Central Africa's net debt jumped from 4.0 to 12.0 per cent of GDP, as net debt doubled as a share of GDP in Cameroon and Gabon, and net

lending fell to a third for Republic of Congo. Total African debt rose from 22.9 per cent of GDP to 25.7 per cent in 2015, and is forecast to rise further to 26.3 per cent in 2016 (figure 1.13).

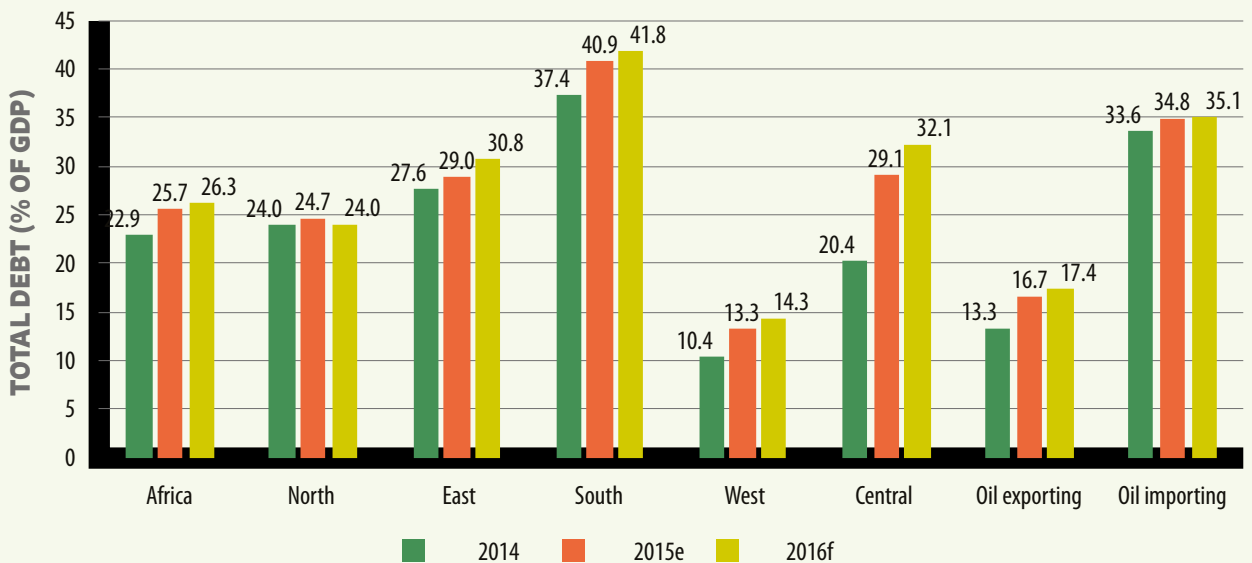
FIGURE 1.12 NET AFRICAN DEBT, 2014–2016



SOURCE: ECA CALCULATIONS BASED ON EIU (2015).

NOTE: E = ESTIMATES; F = FORECASTS.

FIGURE 1.13 TOTAL AFRICAN DEBT, 2014–2016



SOURCE: ECA CALCULATIONS BASED ON EIU (2015).

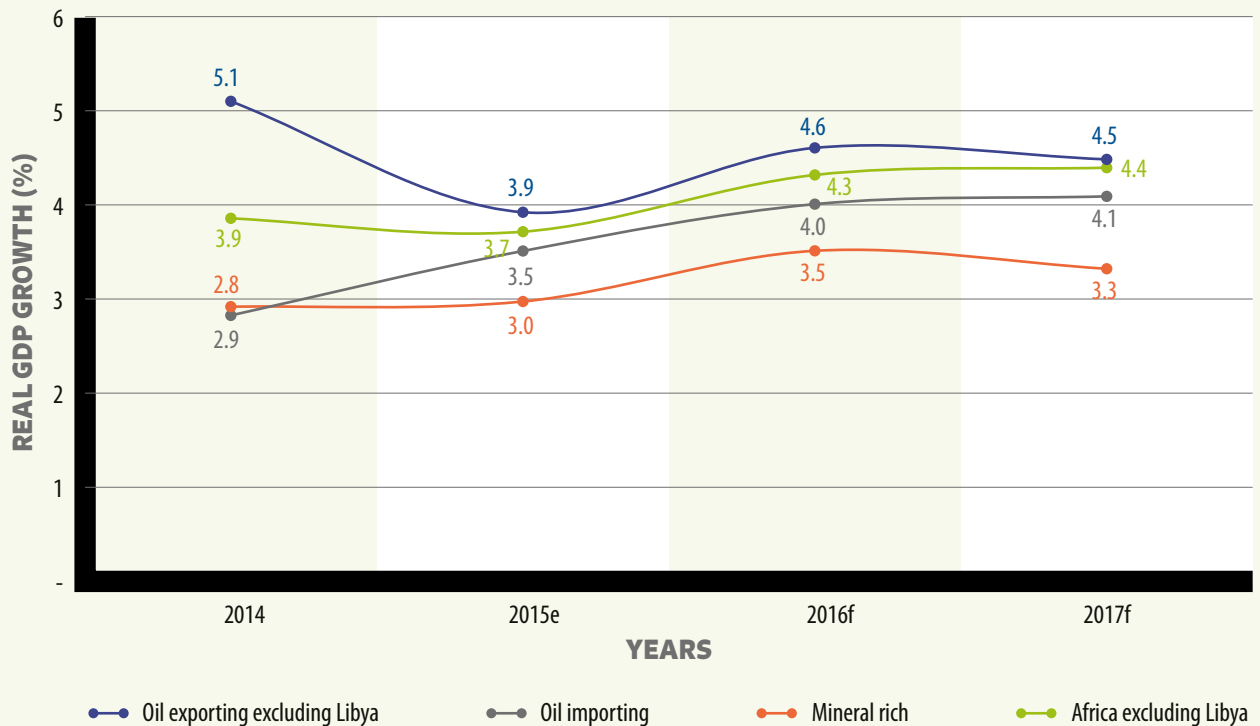
NOTE: E = ESTIMATES; F = FORECASTS.



African countries' incoming FDI, stable in 2015 at around 3 per cent of GDP, is expected to remain around this rate in 2016 and 2017 (UNCTAD, 2016). A North African recovery was reflected in the pickup of FDI inflows, from 1.4 per cent to 1.7 per cent growth. Southern Africa (particularly Angola, Mozambique, South Africa and Zambia) and Central Africa have been the main FDI destinations, with East Africa (particularly Ethiopia, Kenya and Tanzania) also attracting substantial flows.

Manufacturing is the destination of one-third of FDI by function, an encouraging sign of the changing perceptions of Africa, though extraction remains the target, with 26.0 per cent and construction 14.0 per cent of the total. Coal, oil and natural gas dominate at 38.0 per cent of the total, showing scope for investment to diversify from primary commodities and construction. FDI into Africa has been driven partly by strong economic growth in key economies and by low interest rates in Europe and the United States. With US monetary tightening expected to continue in 2016, some capital flows may switch to mature markets.

FIGURE 1.14 AFRICA'S GROWTH BY ECONOMIC GROUP, 2014–2017



SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

1.2 MEDIUM-TERM PROSPECTS AND A CHANCE TO CHANGE

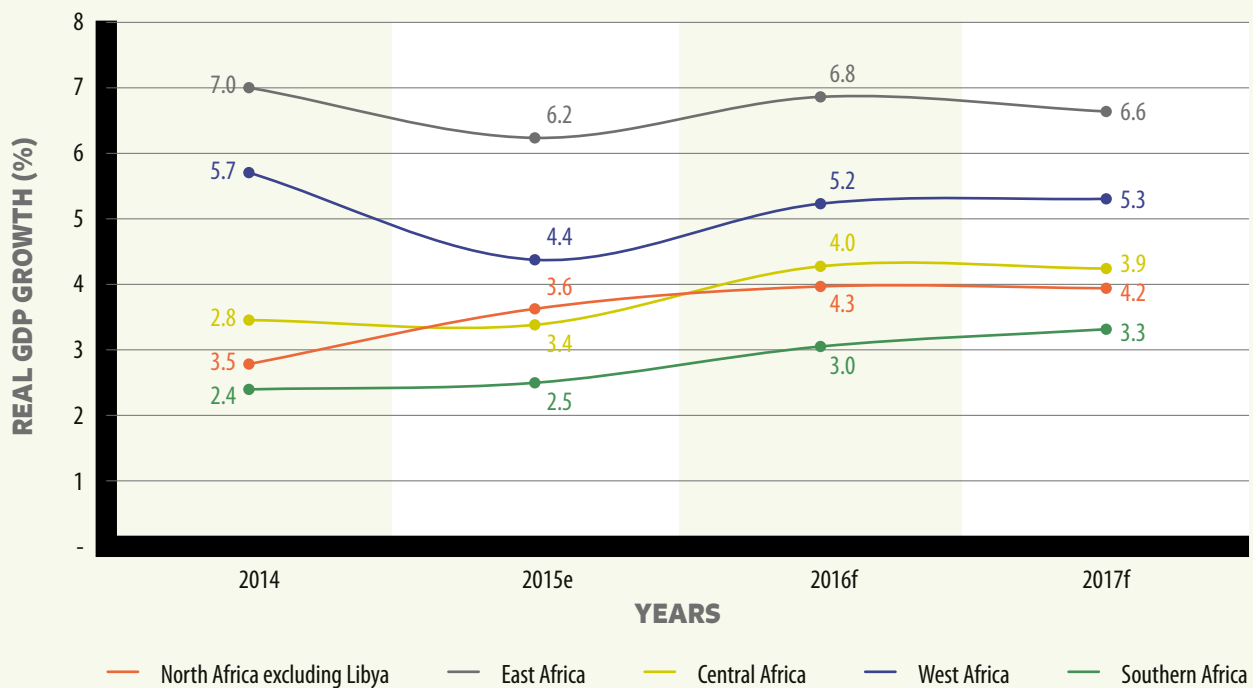
GROWTH PROSPECTS

Africa's real GDP growth is expected to increase by about 4.3 per cent in 2016 and 4.4 per cent in 2017 (figure 1.14), led by strong domestic demand and by investment, particularly in infrastructure. The buoyant service sector and oil-exporting economies' focus on non-oil sectors mitigate the impact of the oil price decline, contributing to better medium-term prospects. Increasing trade and investment ties within Africa and between Africa and emerging economies, and the recovery of traditional export markets, particularly in the euro area, also lift the outlook.

At the subregional level, Southern and West Africa are expected to enjoy real GDP growth in both forecast years, but Central, East and North Africa are forecast to see a rise in 2016 and a slight decline in 2017 (figure 1.15).

West Africa's growth is projected to increase to about 5.2 per cent in 2016 and 5.3 per cent in 2017, boosted mainly by an improving economic performance in Nigeria, with its emphasis on diversifying investments into non-oil sectors. In Southern Africa, growth is forecast to increase to 3.0 per cent in 2016 and 3.3 per cent in 2017, mainly because of expected investment increases in strategic non-oil

FIGURE 1.15 AFRICA'S GROWTH PROSPECTS BY SUBREGION, 2014–2017



SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2015).

NOTE: e = ESTIMATES; f = FORECASTS.



sectors, such as electricity, construction and technology, in large infrastructure projects and in mining.

East Africa's growth is set to lead the rest of the subregions, rising by 6.8 per cent in 2016 and 6.6 per cent in 2017, bucked by robust growth in countries such as Ethiopia, Rwanda and Tanzania—this despite low commodity prices, rising imports of capital goods for infrastructure (instead of productive capacities) and the aftermath of the recent drought. Central Africa is expected to see growth rise to 4.3 per cent in 2016, driven by investment in energy and infrastructure and strong service sector performance.

Low oil prices will hurt hydrocarbon-exporting countries, but on balance may be positive for Africa as a whole.

In North Africa, growth is forecast to increase to 4.3 per cent in 2016 before marginally declining to 4.2 per cent. Improved political and economic stability in the subregion—and a subsequent increase in business confidence (especially in Egypt and Tunisia), in inflows of external aid and in large infrastructure projects—will buttress growth. But continuing political challenges in Libya will continue to affect the subregion's political and economic governance.

RISKS

The global economy's weak recovery affects Africa's performance through trade, investment and remittances. Besides China's economic deceleration, the Eurozone's subdued (though improving) performance is a concern. Likely solid performance by India and Africa may, however, buffer the trade impact. Low oil prices will hurt hydrocarbon-exporting countries, but on balance may be positive for Africa as a whole. The depreciation of major African currencies, while possibly beneficial for exports (see the earlier discussion, "Exchange rates depreciated, though generally failed to lift exports") is likely to put pressure on monetary stability through imported inflation.

FDI flows are expected to remain steady at about 3 per cent of GDP, but the Federal Reserve's monetary policy presents a risk over the medium term. Low interest rates have increased speculative investors' appetite for emerging markets, and US policy rate rises may divert some flows back to mature markets.

Regional risks include weather-related shocks. Drought in East Africa and some parts of Southern Africa could hurt agriculture, which is still the main employer in most African countries (box 1.3). Poor harvests would also increase risk of inflation through higher food prices. And the drought may affect the hydropower generation capacity, threatening the greening of Africa's industrialization as economic agents switch to thermal power.

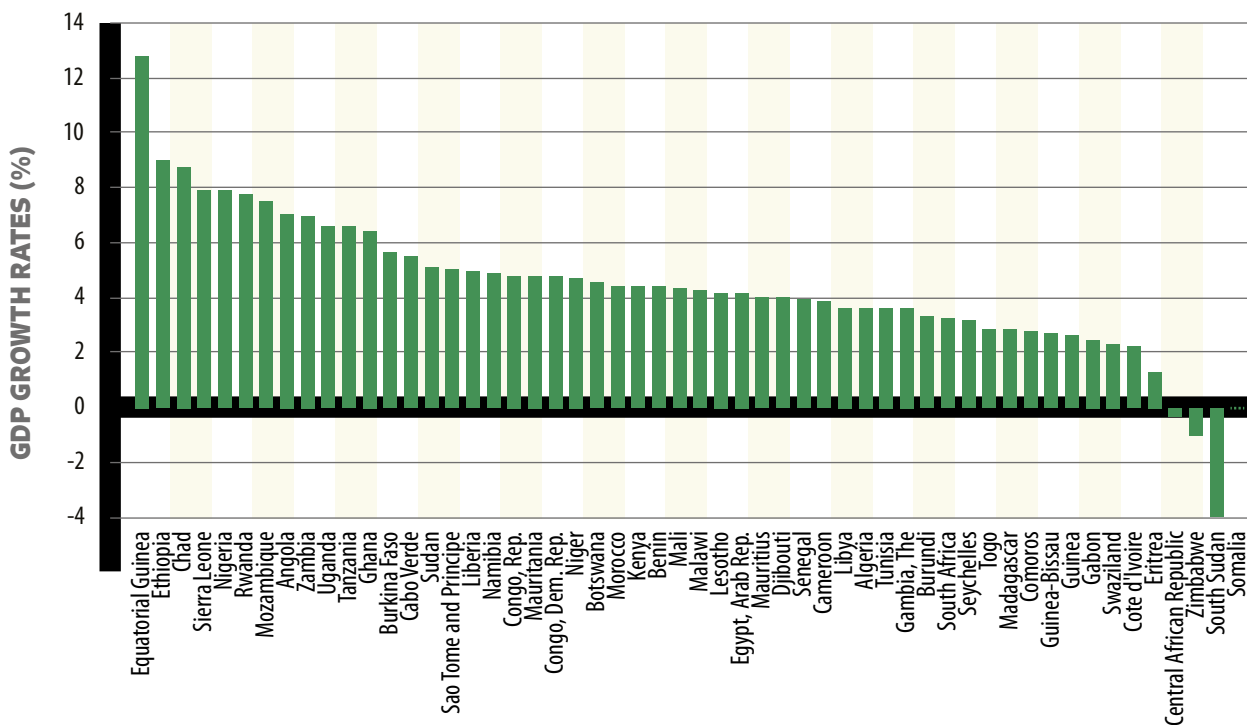
Security in some African countries remains an issue, especially in Egypt, Kenya, Libya and Tunisia, where security concerns have hurt tourism receipts. Boko Haram in Western Africa and political unrest in, for example, Burkina Faso and Burundi, may disrupt domestic economic activity and reduce foreign investment.

BOX 1.3 DROUGHT IN SOUTHERN AFRICA AND THE HORN OF AFRICA—IMPACT ON GROWTH

Both the direct and indirect impacts of climate change are felt in many parts of the world, including Africa. With El Niño's recent increase in intensity, high temperatures are likely to continue in 2016, affecting most of Africa's large and fast-growing economies.

The Horn of Africa and Southern Africa, where some countries have grown fast over the past 15 years (box figure 1.2), are experiencing severe drought and may well continue to do so with rising carbon emissions (Oxfam, 2015). South Africa, Africa's second-largest economy, declared five of its nine provinces drought-disaster areas in late 2015. In Ethiopia—the fastest-growing economy in the world (with Turkmenistan) in 2014, at 10.3 per cent—severe drought is decimating crops, livestock and water, leaving 4.5 million people in need of food relief in August 2015.

The impact of the drought is likely to hurt African economies because 94 per cent of their agricultural output is rain fed, and the major source of energy generation is hydroelectricity (WWF, 2011). Forecasters predict little rain in the months ahead.

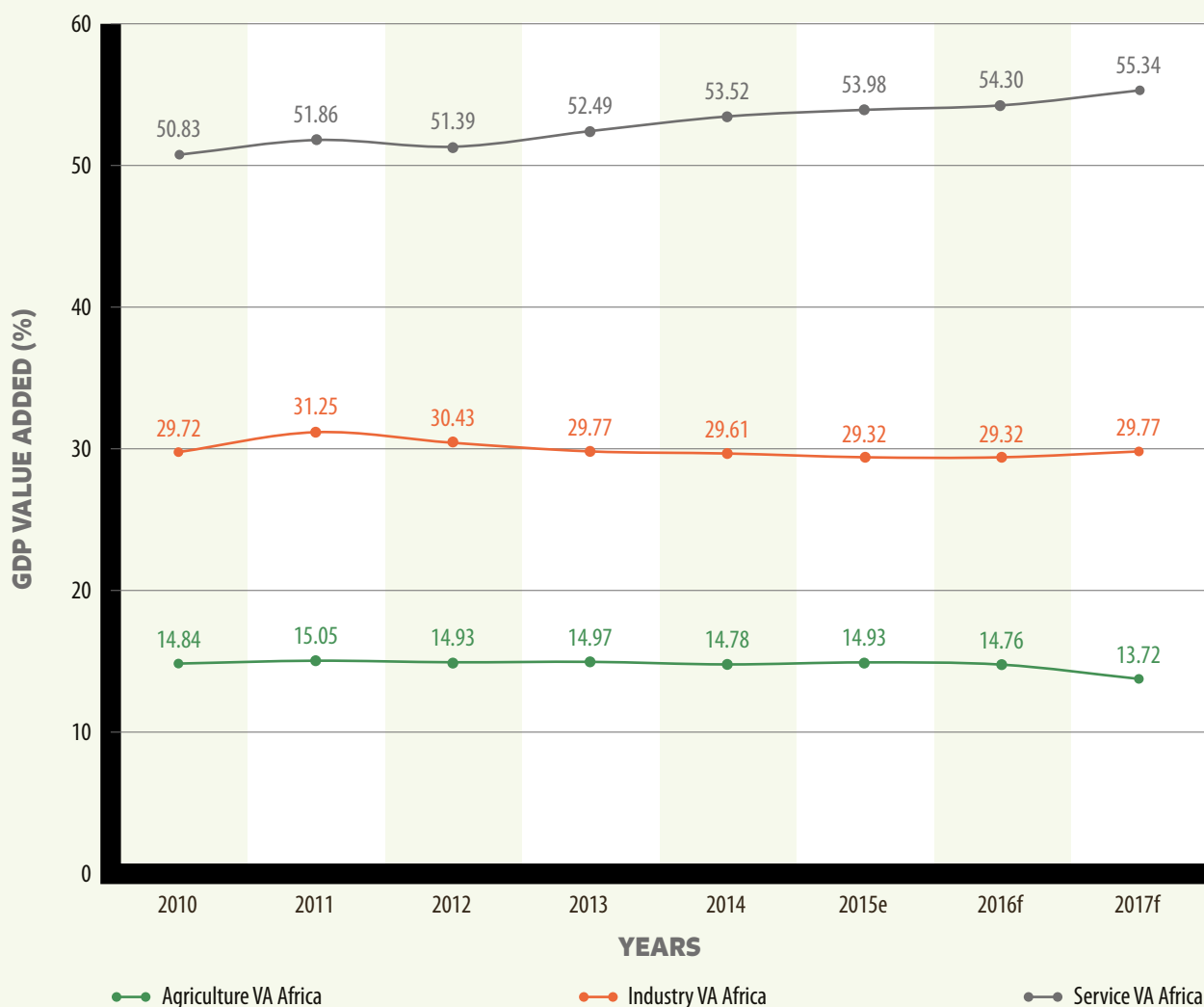
BOX FIGURE 1.2 AVERAGE ANNUAL GDP GROWTH, 2000–2014

SOURCE: WORLD BANK (2015b).

STRUCTURAL TRANSFORMATION AND GREEN GROWTH—IT MUST BE “WHEN?” NOT “IF”

African economies face risks that require special attention from policymakers, including turbulence in the global economy. Africa's vulnerabil-

ity calls for a rethink of its broader development strategy. Despite healthy economic growth (often higher than elsewhere in the world over the last decade), it has rarely been inclusive: the number of Africans in absolute poverty has risen and inequality remains a major issue. And because Africa's growth has been largely tied to exploiting non-re-

FIGURE 1.16 AFRICA'S VALUE ADDED BY SECTOR, 2010–2016


SOURCE: ECA CALCULATIONS BASED ON EIU (2015).

NOTE: e = ESTIMATES; f = FORECASTS.

newable natural resources—with minimal value added and employment generation—sustainable growth has been undermined. Services dominate African economies' valued added as a share of GDP (figure 1.16).

These three strands—macroeconomic vulnerability, social inequality and natural resource dominance—weave into the argument that industrialization is critical for Africa's structural transformation and efforts to create jobs, raise value added and increase incomes. Current developing-country models of economic growth, as exemplified

by China and India, rarely account for the social and environmental externalities that exacerbate poverty in developing countries, Africa included. Given the commodity domination of its exports, its drive for industrialization and structural transformation, and its greater energy needs, Africa's imperative is to adopt green growth.

A green economy is considered to improve human well-being and social equity, while sharply curtailing environmental risks and ecological scarcities. It integrates economic, social and environmental policies and focuses on new opportunities for eco-

conomic growth that reduce pressure on the quality and quantity of natural capital systems (UNEP, 2011).

A green growth pathway will put Africa's development on a more robust and sustainable foundation, since it not only accommodates growth of the economy but also prioritizes the need for restoring or increasing environmental and social assets. Environmental protection's contribution to economic growth is relatively straightforward to analyse, enhancing as it does the quality of natural capital—a critical input into production

processes—and increasing income. As Africa's GDP grows, the continent will have to better manage its scarce natural resources, such as water and fertile land. The economic system cannot be separated from the environment, so the benefits of rapid industrialization have to be seen as part of wider ecological and social systems. (Social trends are reviewed in the next section.) Modern economic growth must thus cease stoking environmental pressures. Box 3.1 in Chapter 3 outlines the main concepts and definitions surrounding Industrialization, Structural Transformation, Greening and their inter-linkages.

1.3 RECENT SOCIAL DEVELOPMENTS IN AFRICA

Africa has made considerable progress towards achieving the Millennium Development Goals (MDGs). The baseline, generally 1990 for most MDGs, was low relative to that for other developing regions. The direction is positive overall, with widely varying progress among goals and countries, and within countries.

PROGRESS TOWARDS THE MDGS

In Central, East, Southern and West Africa, poverty rates declined, though slowly, from 56.5 to 48.4 per cent from 1990 to 2010 (ECA, 2015b). A similarly meagre improvement was seen in the share of the population facing hunger and malnutrition, which fell by 8 per cent from 1990 to 2013. In Central Africa, unfavourable extreme weather shifts drive food insecurity and malnutrition and economic performance has not been robust enough to really dent poverty and create jobs.

In education, Africa is close to achieving universal primary enrolment, with over 68 per cent of the 25 countries (with data) achieving net enrolment of at least 75 per cent in 2013. Completion rates, however, are still only 67 per cent. Education quality also lags behind quantitative gains. Gender parity in primary schooling improved from 0.86 before 2012 to 0.93 after 2012, though both secondary and tertiary gender parity remain below the 0.93 benchmark, at 0.91 and 0.87 ((ECA, 2015b).

In Central Africa, unfavourable extreme weather shifts drive food insecurity and malnutrition and economic performance has not been robust enough to really dent poverty and create jobs.



Under-five mortality fell from 146 deaths per 1,000 live births in 1990 to 65 in 2012, an improvement of 55.5 per cent against the MDG 4 target of a two-thirds reduction by 2015. The efforts to combat HIV/AIDS, malaria and tuberculosis have yielded some achievements in incidence, prevalence and mortality.

Progress towards the environmental goal has been lacklustre. Only a quarter of Africa's population has gained access to an improved water source, the lowest rate globally (ECA, 2015b). Similarly, the proportion of people with access to improved sanitation rose from 24 per cent in 1990 to 30 per cent in 2012. But the disaggregated figure of both indicators is skewed towards urban areas, in part driving health hazards and reducing economic activity. This inadequate attention to rural areas, combined with population growth, degrades land and reduces agricultural productivity, lowering incomes and food security (UNEP, 2008).

Impressively, the MDG target to bring about a significant improvement in the lives of at least 100 million slum dwellers by 2020 was achieved 10 years in advance and then surpassed, by 100 million. But the absolute number of slum dwellers climbed, to 863 million by 2013 (UN-Habitat, 2013). More than 60 per cent of Africa's urban

populations still live in slum areas in precarious conditions, lacking basic services, infrastructure and secure tenure.

PROGRESS GOOD BUT INEQUITIES PERSIST

Progress seems to reflect income, gender, ethnicity and location. For example, only 23 per cent of poor rural girls in Central, East, Southern and West Africa complete their primary education (UN, 2014). In some countries, children in the poorest 20 per cent of the population are three times more likely not to be enrolled in primary school than children from the wealthiest 20 per cent. In 2007, girls accounted for 54 per cent of the world's out-of-school population.

Similarly, health-related costs affect low-income groups disproportionately. Cost-sharing mechanisms in health delivery can be as high as 90 per cent of the costs borne by households, causing them inordinate problems, at times driving them into poverty. Some urban slum dwellers face greater health and literacy disadvantages than rural dwellers (UN-Habitat, 2006). The inequalities of access to improved human capital carry over to income inequalities, perpetuating poverty and

TABLE 1.1 HDI AND INEQUALITY-ADJUSTED HDI, SELECTED REGIONS

| | HDI value | Inequality-adjusted HDI value | Loss due to inequality (%) |
|---|-----------|-------------------------------|----------------------------|
| Central, East, Southern and West Africa | 0.518 | 0.345 | 33.3 |
| Latin America | 0.748 | 0.570 | 23.7 |
| South Asia | 0.607 | 0.433 | 28.7 |

SOURCE: UNDP (2015).

BOX 1.4 THE SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals are an array of development instruments to spur innovation and move economies towards greater efficiency in the use of resources, including energy.

The goal of environmental sustainability reflects global public concern about the need to decouple economic growth and development from environmental degradation and the effects of climate change and environmental degradation—to ensure green growth. This provides scope for

an elaboration of the possible interlinkages among the 17 goal sets, the possible sequencing of chains and the strata of the national system of innovation with which they are most likely to engage.

In a green economy, income growth and employment are driven by investments that cut carbon emissions and pollution, that widen biodiversity and that improve efficiency of resource use.

vulnerability across generations, a pattern particularly evident in access to formal employment in Africa.

The inequalities of opportunities are reflected in inequalities of outcomes. The Human Development Index (HDI), which measures average achievements in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living—puts most African countries in the lower ranks of human development. The inequality-adjusted indicator in the HDI shows a 33 per cent fall from the HDI value, the steepest globally (table 1.1).

The inequalities are partly responsible for the slow pace of social improvement and the transformations inherent in the 2030 Agenda for Sustainable Development (and related Sustainable Development Goals—box 1.4) and Agenda 2063 of the African Union. These are the reverse side of the coin of greening industrialization, which for Africa is enmeshed with greater employment opportunities tied to improving skills and education, managing population and youth issues, and urbanizing successfully.

EMPLOYMENT AND SKILLS

Africa's human capital, though improving, is not linked tightly enough to industrialization, and certainly not to the green economy as endorsed in the 2030 Agenda and Agenda 2063. These agendas aim to transform economies by tackling their structural vulnerabilities and by including all their citizens, building sustainability on solid social, economic and environmental foundations.

Unemployment rates for Central, East, Southern and West Africa were 6.9 per cent for males and 8.8 per cent for females in 2014 (ILO, 2015a), marking marginal declines of 0.2 and 0.1 percentage points from 2009. Economic growth has not kept pace with employment growth, largely because it has been driven by capital-intensive sectors, such as mining and oil, and by exports of primary commodities, adding little value.

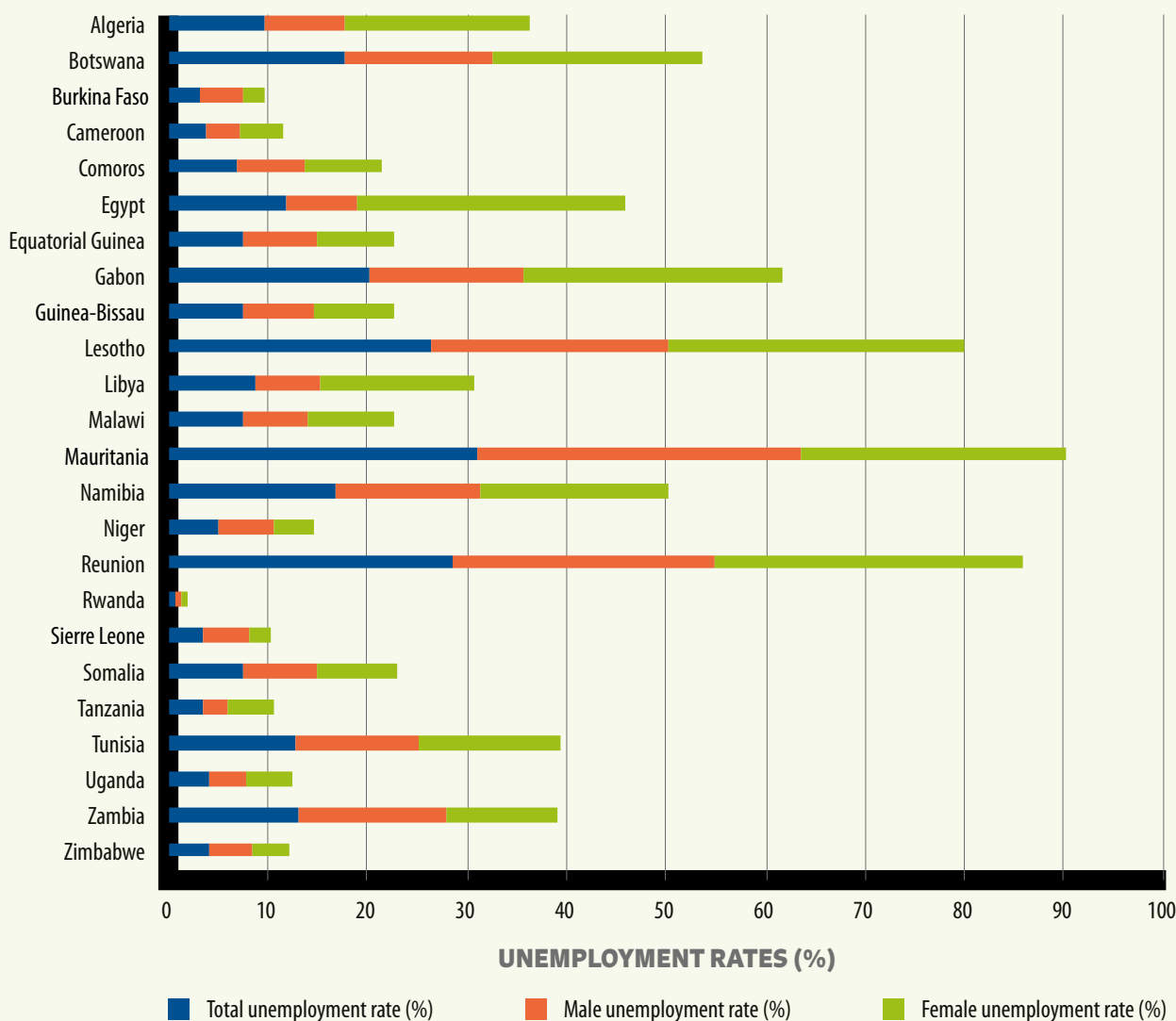
Africa is plagued by the twin problems of unemployment and underemployment, mutually reinforcing and exacerbating widespread informality in countries. The highest unemployment rates in countries with data in 2012 were Mauritania (31 per cent), Reunion (28.5 per cent), Lesotho (26.5 per cent) and Gabon (20.3 per cent). Women had

higher unemployment rates than men in Egypt, Gabon, Lesotho and Reunion (figure 1.17), in part reflecting the different access to labour markets for women.

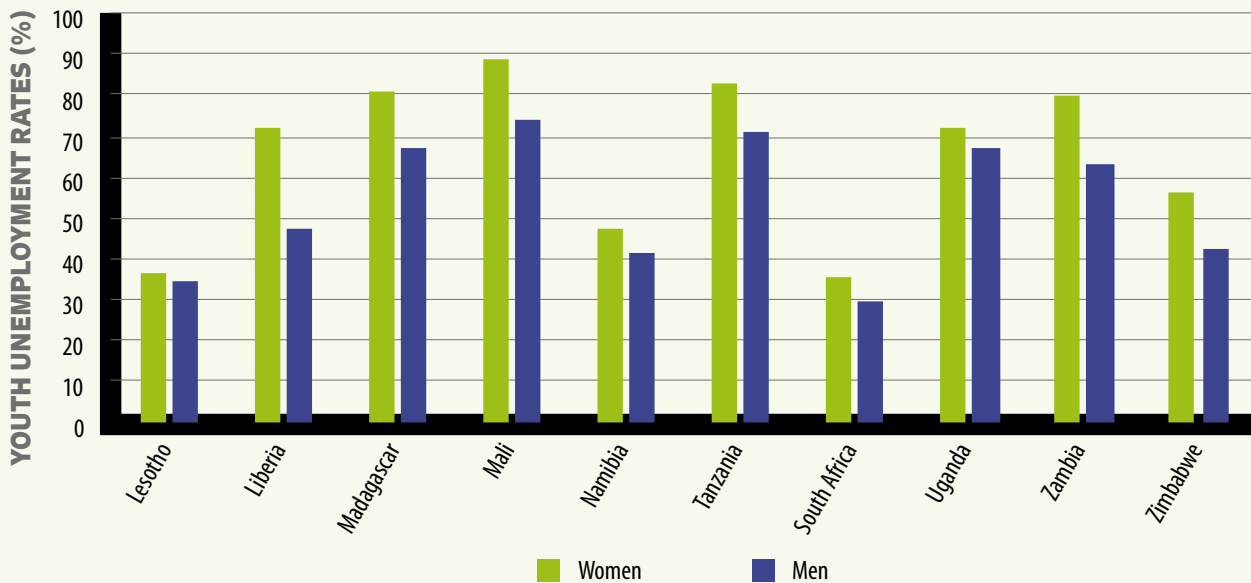
Underemployment is taking root in African labour markets because of structural barriers that hinder labour to flow to the areas where it is most needed. For example, time-related underemployment as a share of total employment for male and female youths aged 15 years and above was 9.2 per cent in Morocco, 6.4 per cent in Namibia, 4.6 per cent in Botswana and 3.9 per cent in South Africa. Most

jobs in Africa, particularly for youth and women, are generated outside the formal economy. Nine of 10 rural and urban workers have informal jobs in Africa, and most employees are women and youth. Over the next decade or so, at best only one in four youths will find a wage job, and only a small fraction of those jobs will be formal in modern enterprises (AfDB, 2013). The informal economy absorbs nearly 70 per cent of workers in Central, East, Southern and West Africa and 62 per cent in North Africa (figure 1.18).

FIGURE 1.17 UNEMPLOYMENT RATES BY SEX, 2012



SOURCE: ILO (2014).

FIGURE 1.18 INFORMAL EMPLOYMENT AS A PERCENTAGE OF NONAGRICULTURAL EMPLOYMENT BY SEX, SELECTED AFRICAN COUNTRIES

SOURCE: ECA (2016).

Informal workers, particularly women and youth, are vulnerable because of limited social protection, poor working conditions and low incomes. Economic empowerment through a level playing field for jobs, backed by access to land and credit, is needed for women and youth. Improved gender parity in Africa and significant gains in parliamentary representation seem to be decoupled from skill profiles adequate for participating fully in the labour market.

The skill profile for greening industrialization, more technically and technologically intensive than today's, reduces demand for unskilled workers—of particular importance in sustainable development. Given the current emphasis on primary education, the new development agenda for secondary education needs to be technically aligned to green industrialization. The benefits of green jobs cannot be overstated, particularly in light of the climatic changes threatening to reverse Africa's hard-won economic and social gains.

Given this threat and the unsustainably high environmental costs associated with a business-as-usual economic model, the International Labour Organization proposes a transition to green jobs with profound effects on production and consumption, on enterprises and workers, and on employment and incomes.³ Africa cannot remain a passive bystander. It needs to explore the opportunities for green jobs while pursuing low-carbon growth within its structural transformation and inclusive development agenda, in line with the Rio+20 agenda.

Adopting green technology has challenges, including steep costs of innovations, new technologies and new jobs and institutions. Since most jobs in Africa are informal, all key stakeholders must appreciate and contribute to the targeted support needed for such adoption, possibly through a phased and differentiated approach, starting with countries whose initial conditions are amenable to new technologies. More fundamentally, African countries should be supported with institutional



and financial capacity to embrace and sustain the economic transformation towards green jobs and industries.

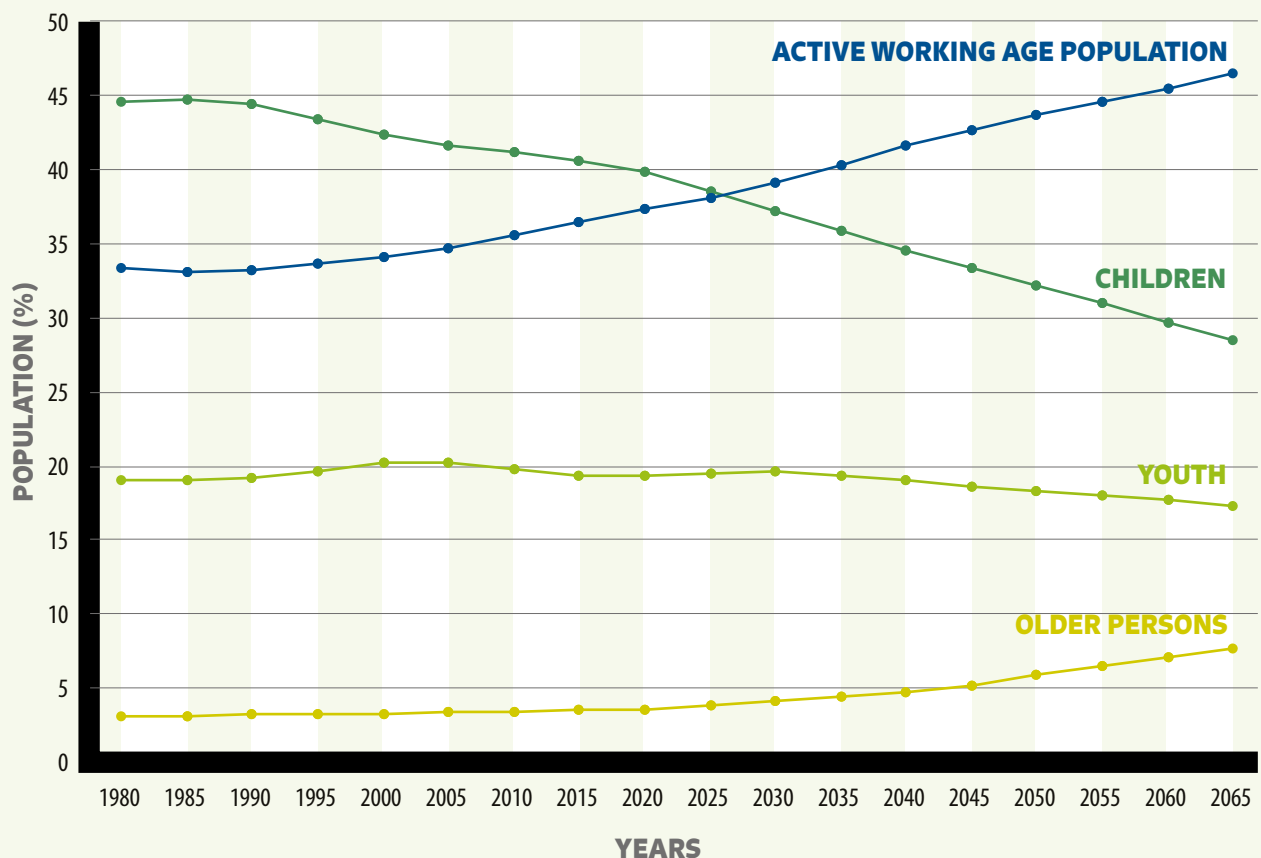
POPULATION AND YOUTH

Population growth and rapid urbanization may make it hard to attain inclusive green growth, but the potential contribution of Africa's youth bulge can be realized if harnessed well (Babatunde, 2014). One of the greatest challenges facing governments and policymakers in Africa is how to provide opportunities and meet the needs of youth, the majority of whom are excluded from the mainstream economy.

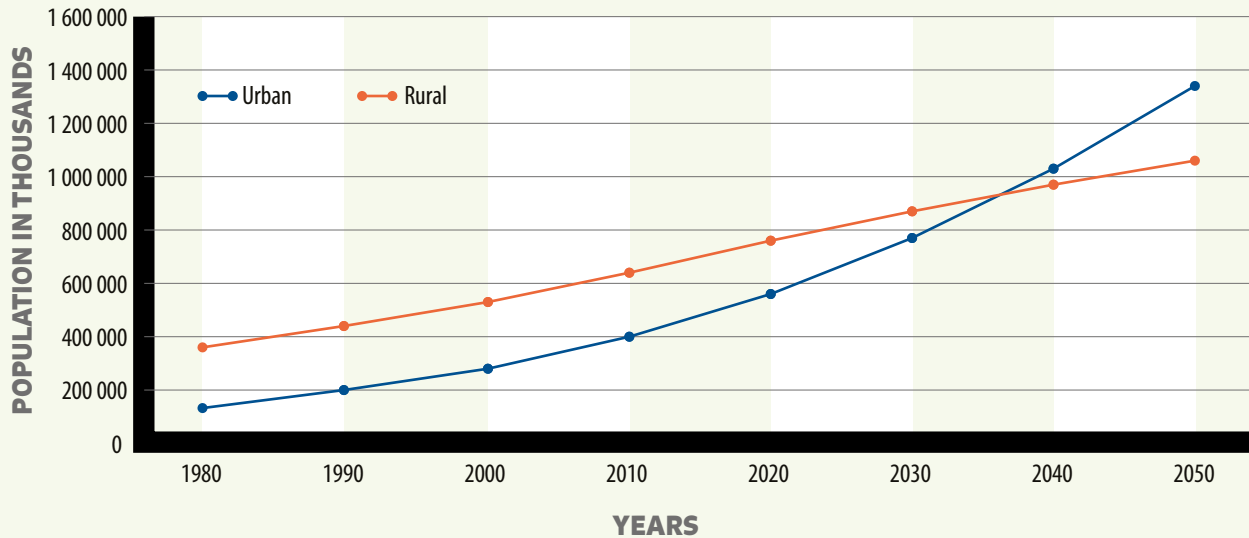
A further challenge is the changing population structure (figure 1.19). The working-age population (25–64 years) is growing faster than any other age group, more than trebling in numbers between 1980 and 2015, from 123.7 million to 425.7 million—or as a share of the population from 33.3 to 36.5 per cent. Any “demographic dividend” for Africa must be based on the right skill profile of its youth population to let them drive industrialization through green jobs in agriculture, manufacturing and clean energy (ECA and UNEP, 2015).

Youth are energetic, keen to adopt new technologies, and mostly well-schooled. Thus one of the greatest challenges for governments is to provide opportunities and meet the needs of youth. To ensure that youth are empowered to lead decent

FIGURE 1.19 AFRICA'S POPULATION BY AGE GROUP, 1980–2065



SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2015).

FIGURE 1.20 AFRICAN URBAN AND RURAL POPULATIONS, 1980–2050

SOURCE: ECA CALCULATIONS BASED ON UN-DESA (2014).

lives and contribute to the socioeconomic development of their countries, policymakers need to draft and enforce economic policies and programmes that facilitate their full participation.

URBANIZATION

Over 2015–20, Africa will have the world's highest annual rate of urban growth (3.4 per cent, against the global rate of 1.84 per cent). The share of the continent's population that is urban climbed from 27 per cent in 1980 to 40 per cent in 2015, and is expected to pass 50 per cent by 2035 (ECA and UNEP, 2015). In absolute terms, Africa's urban population is projected to more than double between 2015 and 2040, reaching 1.02 billion and surpassing the rural population (figure 1.20). This will be matched by a considerable rise in demand for urban services, infrastructure and employment, whose provision is already severely constrained.

Urban areas account for more than 55 per cent of African GDP (AfDB, 2012), though their economic role is largely one of consumption rather than pro-

duction. Unlike other parts of the world, Africa's urbanization is not linked to industrialization, leading to "consumption cities" populated mainly by workers in nontradable services (Gollin et al., 2014). Urban consumption is expected to continue rising. By 2020, Africa's largest consumer markets—Alexandria, Cairo, Cape Town, Johannesburg and Lagos—are expected to have \$25 billion in household spending, and in 2030, the continent's 18 largest cities may have a combined spending power of \$1.3 trillion (McKinsey Global Institute 2010). African cities also remain largely informal: More than 60 per cent of their populations are in slums, and employment is concentrated in the informal sector. These are worrying factors given the youth bulge in the region and the concomitant need to create decent jobs.

Urban growth is expected to be paced by greater energy and resource demands. Globally, urban areas account for over 70 per cent of greenhouse gas emissions (UN-Habitat, 2011). African cities have lower carbon dioxide emissions than the world average, but these volumes are projected to surge without strategies for boosting efficiency in



urban resource and energy use (Godfrey and Zhao, 2015). Environmental impacts can be mitigated and resource efficiency and productivity enhanced through, for example, more compact cities (UNEP, 2013; UN-Habitat, 2012). As the least urbanized region globally, Africa has a unique opportunity to minimize its cities' carbon footprint, including through infrastructure and land-use practices that promote urban density and lower car dependence (and thus less fossil-fuel consumption).

Africa's current and future massive urban infrastructure investments present vast opportuni-

ties to exploit urban agglomeration, leading to resource efficiency and economies of scale in industrial production through intra- and inter-industry interactions—as illustrated in China, where the government has promoted urban clustering to enhance economies of scale (World Bank, 2009). Africa's industrialization—to be resource and energy efficient—requires a proficient framework of urban centres that produce industrial goods and high-value services, embedded in transport networks linking national economies to regional and global markets. Greening Africa's industrialization needs to be tied to the region's urban transition.

1.4 CONCLUSIONS AND POLICY RECOMMENDATIONS

African countries have made notable gains in the regional business environment. With greater economic and political stability across most subregions, these advances have supported growth through higher private consumption and increased public and private investment. Recent commodity price developments have, however, highlighted many economies' persistent structural weaknesses, particularly in government revenues, exchange rates and current account balances. Stronger emphasis is required on strategic non-oil sectors such as electricity, construction and technology, particularly in economies heavily dependent on oil revenue, such as Nigeria.

The global economic environment underlines the need for prudent, counter-cyclical macroeconomic management. Continued low commodity prices offer an opportunity for improved fiscal management and consolidation through further cutting of subsidies to utilities. Spending should instead target high-priority sectors for acceler-

ated structural transformation. Countries should also focus on mobilizing domestic resources to fund public investment, by issuing Eurobonds, for example. African countries still have high international reserves that could be used for investment. Exchange rate depreciation can also enhance exports, particularly in oil-dependent countries.

Intra-African trade represents a low share of Africa's exports, but since it is more diversified than that with the rest of the world, it too provides an opportunity for diversifying production. Diversified trade can also shore up resilience to external shocks. Africa continued to grow in and after the global financial crisis, while traditional markets have seen very slow recoveries, limiting Africa's export opportunities. African countries should therefore seek to enhance intra-African trade by strengthening regional integration, lowering trade costs and the nonphysical barriers to trade and pledging stronger commitments to the Continental Free Trade Area under negotiation.

Africa's industrialization has the potential to create green jobs, and its structural transformation should expand its fiscal space, enabling countries to increase their investment in social sectors essential to strengthening human capital, and exposing women to green skills and technologies on the way to achieving inclusive, equitable and sustainable green industrialization. (Green jobs will not automatically benefit women unless governments take steps to recognize and resolve the inequities they face.)

The links between education and employment, population shifts and urbanization as the continent "green industrializes" must be understood to ensure sustainability. Growth in income and employment is driven by reallocating factors from unsustainable industries to ones that build human skills, enhance energy and resource efficiency and prevent biodiversity loss. The growth of an unplanned urban Africa with a youthful population needs to be matched with industrialization that provides skills demanded by the labour market and efficient services required by the public. A focus on largely young and female informal sector workers to drive the new agenda is a key aspect of industrialization. The informal sector can be leveraged to provide training, access to credit and social protection to increase productivity and welfare, including manufacturing in micro, small and medium enterprises (AfDB, 2013).

Urban planning to foster environmentally friendly infrastructure and smart cities is also needed, encompassing related industries when policy-makers select and promote greener technologies (Freire, 2013). Such planning will help mitigate environmental degradation, informal and unregulated settlements, haphazard disposal of waste and industrial products, unsustainable transport systems, high demand for energy (especially fossil fuels) and unregulated use of land and natural resources. Well-planned urban agglomeration can help ensure energy efficiency and facilitate

resource efficiency in industrial production by enabling intra- and inter-industry interactions.

Africa's various industrial and urban and regional development policies need to evolve in tandem, so as to optimize efficiency and sustainability gains from agglomeration, drawing on the experience of other formerly developing parts of the world, such as countries in East Asia. Mainstreaming urbanization into national development planning will create the framework to optimize the spatial dimension of industrialization towards green economies.

Africa's industrialization has the potential to create green jobs,...
..., and exposing women to green skills and technologies on the way to achieving inclusive, equitable and sustainable green industrialization.

The close of the MDGs in 2015 provided some important messages on the transition towards the SDGs and Agenda 2063, particularly the link between growth and social development. Africa's positive but slow pace in improving social outcomes masks many idiosyncrasies: Aggregate gains in health and education have often excluded low-income households, women and rural dwellers. For these reasons, among others, addressing industrialization's environmental implications offers a strong incentive for developing socially inclusive green technologies, for enhancing local systems of innovation on climate change mitigation and adaptation, and for improving resource-use efficiency—as discussed in the next chapter.



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1.6 ENDNOTES

- 1 ECA calculations, based on EIU (2015).
- 2 ECA calculations, based on United Nations Conference on Trade and Development (UNCTAD), 2016.
- 3 http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_153458.pdf.